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September 8, 2006

REDACTED FOR PUBLIC INSPECTION

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: *Ex Parte* Submission of ACS of Anchorage, Inc., *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area, WC Docket No. 05-281*

Dear Ms. Dortch:

ACS of Anchorage, Inc. ("ACS"), by its attorneys, responds to the arguments submitted by General Communication, Inc. ("GCI") in its July 3, 2006 and August 22, 2006 *ex parte* filings.¹ GCI has failed to present evidence or arguments that would justify maintaining the Section 251(c) requirements in Anchorage. GCI's extensive *ex parte* filings add no credible evidence to the ample record in this proceeding. ACS's petition should be granted. First, market incentives and regulatory mechanisms provide the same protections as the Section 271 checklist requirements the Commission retained in the *Qwest Order* to ensure that ACS will continue to provide UNEs at just and reasonable rates consistent with Sections 201 and 202 of the Act. Second, there is no precedent to support GCI's overly granular definition of geographic and product markets. Third, while ACS has submitted into the record evidence demonstrating widespread facilities-based competition in Anchorage, GCI has failed to present rebuttal evidence. Instead, GCI recites a litany of tasks it has yet to perform that, even when taken in the aggregate, do not amount to impairment sufficient to justify continued access to UNEs.

¹ *Ex Parte* Submission of General Communication, Inc., *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed July 3, 2006) ("GCI *Ex Parte*"); *Ex Parte* Submission of General Communication, Inc., *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed Aug. 22, 2006) ("GCI Aug. *Ex Parte*").

I. ACS WILL CONTINUE TO OFFER UNES AT JUST AND REASONABLE RATES

ACS has demonstrated that market incentives and state regulation will ensure that ACS will offer retail and wholesale services at just, reasonable and non-discriminatory rates.² In its *ex parte*, GCI attempts to rebut this evidence with arguments about proceedings in Alaska and Section 271 of the Communications Act. None of GCI's arguments hits its mark. ACS's Petition and its reply comments and *ex parte* submissions in this proceeding establish that the facilities-based competition and market forces in Anchorage warrant forbearance.³ Due to the relative bargaining positions of ACS and GCI, and the RCA's continued regulatory oversight over ACS, the provisions of Section 271 are wholly unnecessary for forbearance from Section 251(c) in Anchorage.

A. Forbearance From The Obligation To Make UNEs Available in Anchorage Is Necessary To Balance The Relative Bargaining Positions of ACS and GCI

As already demonstrated in this proceeding, ACS is no longer the dominant provider of telecommunications services in Anchorage. While GCI describes ACS as having "monopoly power,"⁴ GCI's arguments regarding ACS pertain equally to itself based on its significant market share and exclusive facilities. GCI has both a greater percentage of the retail market than ACS⁵

² *Reply Comments of ACS of Anchorage, Inc., In Support of Its Petition for Forbearance from Section 251(c)(3) and 252(d)(1)*, WC Docket No. 05-281, at 43-47 (filed Feb. 23, 2006) ("ACS Reply Comments").

³ *See ACS Reply Comments; Ex Parte Submission of ACS of Anchorage, Inc., Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed May 31, 2006) ("ACS May 31 *Ex Parte*"); *Ex Parte Notice of ACS of Anchorage, Inc., Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed May 10, 2006); *Ex Parte Submission Regarding Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Section 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed Apr. 3, 2006) ("ACS Apr. 3 *Ex Parte*").

⁴ *E.g., Ex Parte Submission of General Communication, Inc. to the Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281, at 15 (filed July 3, 2006) ("GCI *Ex Parte*").

⁵ At the end of November 2005, ACS had 87,452 access lines while GCI had 88,614. *See Statement of Kenneth L. Sprain ¶ 6, ACS Reply Comments, attached thereto as Exhibit A ("Sprain Statement"); Exhibit III, attached to Declaration of William P. Zarakas, Opposition of General Communication, Inc., to the Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications Act Filed by ACS of Anchorage*, WC Docket No. 05-281 (filed Jan. 9, 2006) ("GCI Opposition"), attached thereto as Exhibit C.

and exclusive control over various facilities in Anchorage.⁶ GCI has exclusive access to many customers' loop and conduit facilities, as well as interexchange and local fiber transport networks. Additionally, GCI has exclusive loops in two subdivisions, as well as exclusive facilities to numerous office buildings, in Anchorage. ACS has neither a legal right nor a good bargaining position to gain access to any of these GCI facilities.

Given GCI's control of various networks, it is imperative that ACS gain an equal bargaining position to GCI. ACS would be unable to negotiate access to GCI's numerous facilities if ACS offered UNEs at prohibitively high rates or not at all. For these reasons, the Commission should find that forbearance will put the two companies on more equal footing and encourage negotiation of market-based terms for facilities access.⁷

Unable to dispute these market realities, GCI attempts to portray ACS as unwilling to negotiate. For example, GCI focuses on negotiations in the Glacier State Study Area.⁸ However, GCI mischaracterizes ACS's reluctance to willingly forego its rural exemption in the Glacier State Study Area as an unwillingness to negotiate with GCI in Anchorage.⁹ GCI misrepresents ACS's role in GCI's certification proceeding in the Glacier State Study Area before the RCA. ACS's affiliate – ACS of the Northland, Inc. ("ACS-Northland") – did not oppose GCI's application to provide local service in Glacier State when GCI represented to the RCA that it would use its own facilities to enter Glacier State.¹⁰ It was only after GCI requested the use of ACS-Northland's facilities and implied that it would seek termination of ACS-Northland's rural exemption that ACS-Northland asked the RCA to investigate GCI's representations that it would use its own facilities in Glacier State.¹¹

Additionally, GCI is unconvincing in postulating that ACS's failure to initiate negotiations of recently adopted TELRIC-based UNE rates in Anchorage is indicative of ACS's

⁶ See, e.g., Reply Statement of Thomas R. Meade ¶¶ 2, 10, ACS Reply Comments, attached thereto as Exhibit D; Statement of Thomas R. Meade in Support of ACS's *Ex Parte* Submission Filed September 8, 2006 ¶ 5, attached hereto Exhibit A ("Meade Statement").

⁷ The Communications Act gives the Commission authority to rule that GCI should be treated as an incumbent LEC. See 47 U.S.C. § 251(h)(2). Such a ruling would have the effect of subjecting GCI, the carrier serving a larger portion of the local exchange market than ACS, to the same regulation as ACS, thereby equalizing the positions of these carriers. However, given the significant competition in Anchorage, ACS advocates deregulating ACS's UNEs to equalize the respective bargaining positions of ACS and GCI.

⁸ GCI *Ex Parte* 19.

⁹ Meade Statement ¶ 9.

¹⁰ *Id.*

¹¹ *Id.* ACS included the letter at issue as an exhibit to its Reply Comments to demonstrate GCI's use of WLL technology. See Letter to RCA re: Docket U-05-4, at 3 (Mar. 22, 2005) (attached as Exhibit E-6 to Statement of Charles L. Jackson in Support of Petition of ACS of Anchorage, Inc. for Forbearance From Sections 251(c)(3) and 252(d)(1), ACS Reply Comments, attached thereto as Exhibit E ("Jackson Reply Statement")).

general unwillingness to negotiate with GCI.¹² ACS and GCI engaged in negotiations for UNEs in Anchorage at several stages during the RCA's seven-year UNE rate proceeding.¹³ Moreover, GCI recently initiated negotiations with ACS for future UNE access in Anchorage.¹⁴ GCI would have no reason to do so if it actually believed that ACS was unwilling to negotiate UNE rates. Further, GCI ignores the fact that it has successfully negotiated with ACS affiliates for access to facilities in Fairbanks and Juneau on commercial terms that are more favorable to GCI than the requirements of the Communications Act and the FCC's rules.¹⁵ Past negotiations have been impeded by the unequal bargaining positions between the two parties. Because GCI already has access to ACS UNEs at regulated rates, GCI has no incentive to allow ACS to negotiate for access to GCI's loop, transport and interexchange facilities.¹⁶ Quite simply, ACS and GCI have failed to negotiate terms for UNEs because GCI has no incentive to do so today. GCI has market power on some routes; ACS has none. In reality, the lack of commercial negotiations in Anchorage is indicative of the harm to market competition caused by the continued application of UNE obligations and pricing regulations on a party that does not have market power.¹⁷

B. The RCA's Continuing Regulatory Oversight Makes Unbundling Unnecessary To Ensure Retail Rates Are Just And Reasonable

GCI does not accurately portray the impact of the RCA's detariffing order. Although the RCA determined that the extremely high level of competition in Anchorage renders "pre-effectiveness" review of tariffs unnecessary, it has maintained review mechanisms to ensure that retail rates are just and reasonable and are not unreasonably discriminatory. The RCA's finding of non-dominance only allows new or revised tariff orders to be introduced to the market more quickly. The new regulatory scheme continues to (1) retain the "just and reasonable rate" requirement for both retail and wholesale services, (2) involve the RCA's investigation of matters beyond the complaint process, and (3) control ACS's retail pricing.

¹² GCI *Ex Parte* 15, 19.

¹³ Meade Statement ¶ 6.

¹⁴ *Id.* ¶ 8.

¹⁵ *Id.* ¶ 7.

¹⁶ *Id.* ¶ 8.

¹⁷ See Statement of Howard A. Shelanski in Support of Petition of ACS of Anchorage, Inc. for Forbearance from Sections 251(c)(3) and 252(d)(1) ¶¶ 11-13, 25, *Amended Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as Amended, for Forbearance from Sections 251(c)(2) and 252(d)(1) in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed Oct. 6, 2005) ("ACS Petition"), attached thereto as Exhibit D ("Shelanski Petition Statement"). The D.C. Circuit has acknowledged that ILECs will be inclined to offer reasonable wholesale rates because they face "intense intermodal competition," inducing them to find ways to keep traffic on net. See *EarthLink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *25 n.8 (D.C. Cir. Aug. 15, 2006).

The “just and reasonable rates” and prohibitions against “unreasonable preferences” will continue to apply.¹⁸ In her declaration, Ms. G. Nanette Thompson overstates the significance of the omission of the words “just and reasonable” from the retail rate provisions of the new regulations.¹⁹ Other state law provisions continue to mandate that rates remain “just and reasonable.” During the RCA’s proceeding adopting these rules, ACS specifically requested that the RCA waive the statutory requirement that rates be just and reasonable.²⁰ The RCA denied the request. The statutory standard is still in effect, without being waived or amended, and the RCA has full authority to enforce the statute.²¹ Ms. Thompson also asserts that the regulations do not impose “nondiscrimination obligations on the rates and terms of wholesale service.”²² The new regulations mandate that wholesale services be made available to other carriers “consistent with 47 U.S.C. § 251 and § 252.”²³ Thus, the regulations incorporate the federal requirement to provide nondiscriminatory access to wholesale services.

The RCA has made clear it has jurisdiction to investigate any concerns about unreasonable rates outside of a complaint proceeding. During the RCA’s non-dominance proceedings, ACS proposed a regulation to limit the RCA’s regulatory intervention to issues set forth in a complaint.²⁴ The RCA denied ACS’s proposal.²⁵ Neither GCI nor ACS can predict with certainty how often the RCA will investigate tariffs outside of the complaint process.²⁶ However, the RCA has deliberately retained the ability to investigate on its own motion.

Furthermore, the RCA maintains substantial control over ACS’s retail prices. At GCI’s urging, the RCA adopted a regulation allowing it to “prevent predatory pricing.”²⁷ As GCI concedes, current RCA regulations set specific annual limits for residential rate increases.²⁸ While these limits do not specifically apply to bundled services, a separate regulation authorizes the RCA to “prohibit an unjust or unreasonable bundled service.”²⁹ Therefore, GCI’s argument

¹⁸ ACS Reply Comments 46; *id.* at 50 (“GCI is misleading when it suggests that the RCA’s detariffing order ended rate regulation in Anchorage.”).

¹⁹ Declaration of G. Nanette Thompson ¶ 6, *GCI Ex Parte*, attached thereto as Exhibit B (“Thompson Decl.”).

²⁰ Statement of Ted S. Moninski in Support of ACS’s *Ex Parte* Submission Filed September 8, 2006 ¶ 9, attached hereto as Exhibit B (“Moninski Statement”).

²¹ *Id.*

²² Thompson Decl. ¶ 4.

²³ Moninski Statement ¶ 10 (quoting 3 AAC 53.250(a)).

²⁴ *Id.* at ¶ 11.

²⁵ *Id.*

²⁶ *Id.*

²⁷ Moninski Statement ¶ 12 (quoting 3 AAC 48.315(d)).

²⁸ Thompson Decl. ¶ 10; 3 AAC 53.243(c).

²⁹ Moninski Statement ¶ 14 (quoting 3 AAC 48.315(d)).

that the residential rate cap does not apply to bundled services is wholly misleading.³⁰ Regarding pricing of business services, the RCA's new regulations have streamlined filing procedures and specifically address special contracts. The RCA retains the same statutory power to review special contracts and ensure that their rates are "just and reasonable."³¹ Significant competition in Anchorage, along with these regulatory safeguards, ensures that ACS would be unable to impose a significant price increase.

C. ACS's Requested Relief from Section 251(c) Is Consistent With The *Qwest Order*

The relief that the Commission granted in the *Qwest Order* supports a grant of forbearance in Anchorage. The *Qwest Order* makes clear that forbearance determinations are based on an analysis of the individual circumstances of the relevant market. The Commission does not need to find that the facts in Anchorage mirror exactly those in Omaha. In particular, the Commission should consider the fact that ACS is an independent LEC that never had either the scale or the market reach of a BOC. The Commission should reject GCI's interpretation of the *Qwest Order* because under GCI's reasoning, (1) the UNE portion of the *Qwest Order* effectively granted no forbearance at all, and (2) forbearance would only be appropriate when the petitioner is subject to Section 271 obligations to provide access to UNEs.

GCI first misconstrues the *Qwest Order* by asserting that the Commission granted forbearance from UNE TELRIC rates while maintaining the obligation to provide UNEs.³² GCI ignores the fact that the Commission in *Qwest* granted forbearance from the most significant subsection of Section 271—checklist item 2—which incorporates and is coextensive with Section 251(c)(3).³³ GCI's interpretation of the applicability of Section 271 checklist items (iv) and (v) would render the Commission's grant of forbearance from UNE obligations meaningless. However, the *Qwest Order* makes clear that the Commission only continues to apply items (iv) and (v) to maintain consistency with the identical obligations that appear in Sections 201 and 202.³⁴ Under the standard set forth in Sections 201 and 202, *Qwest* would be justified in refusing access to UNEs on terms that are inconsistent with the "just, reasonable and non-discriminatory" standard. The D.C. Circuit has affirmed this interpretation of the standard set

³⁰ Thompson Decl. ¶ 10.

³¹ Moninski Decl. ¶ 15. Although GCI emphasizes the pricing discretion inherent in special contracts, GCI has not filed any since the new regulations have become effective, and only rarely prior to that. *Id.*

³² GCI *Ex Parte* 5-6.

³³ *Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area*, Memorandum Opinion and Order, 20 FCC Rcd 19415 ¶ 96 (2005) ("*Qwest Order*").

³⁴ *Id.* ¶ 101 (retaining checklist items (iv)-(v) to the extent these items "require just and reasonable pricing under sections 201 and 202"); *see also id.* ¶ 105 (retaining the "just, reasonable and non-discriminatory pricing standard" of the wholesale access obligations).

forth in Sections 201 and 202 in the context of wireless carriers.³⁵ Because Sections 201 and 202 apply the same standard to ILECs and CLECs alike, forbearance from Section 251(c) would put ACS and GCI on equal footing in negotiating access to network elements.

GCI next errs in concluding that Section 271 obligations should be imposed on a carrier before forbearance can be granted.³⁶ Section 271 requirements apply only to BOCs. As an independent carrier, ACS lacks either sufficient scale and scope economies or any history of discrimination. Unlike the significant difference in size and resources between a BOC and a typical CLEC in a BOC market, in Anchorage, GCI is larger than ACS, in both retail lines and revenues.³⁷ ACS thus poses no risk of unreasonably withholding service to prevent market entry, which is what the BOC Section 271 requirement aims to prevent.³⁸ Further, to the extent that the Commission retained the Section 271 requirements in the *Qwest Order* to allow additional wireline entrants to gain access to UNEs,³⁹ such protection is unnecessary in Anchorage. New entry has occurred by wireless, VoIP and other intermodal providers, and continues to expand without the use of UNEs. Finally, the D.C. Circuit recently rejected the requirement that Section 271 unbundling obligations remain in place before relief from UNEs under Section 251 can be granted.⁴⁰

Section 271's "just and reasonable pricing" standard is unnecessary to protect consumers in Anchorage because other regulations and market incentives will ensure that just and reasonable rates are offered. Retail pricing continues to be regulated by the RCA, as discussed above. In addition, ACS will continue to offer wholesale services to resellers on just, reasonable and non-discriminatory terms pursuant to Section 251(c)(4). And as to all interstate telecommunications services, the regulatory protections in Sections 201 and 202 will remain in place;⁴¹ Section 271(c)(2)(B)(iv-v) are duplicative of Section 201 and 202. Thus, the just and reasonable pricing standard will still apply to interstate access services after forbearance.⁴² Forbearance will provide the balance necessary to permit the market to function, and market incentives provide ACS reason enough to negotiate with GCI on reciprocal terms of access to both carriers' networks. Section 10's test has been met, and forbearance may not be denied merely because Section 271 may impose a separate statutory standard on a class of carriers to which ACS does not belong.

³⁵ *Orloff v. FCC*, 352 F.3d 415, 420 (D.C. Cir. 2003) (affirming the Commission's determination that Section 202 only prohibits unjust and unreasonable discrimination in CMRS charges and service).

³⁶ *GCI Ex Parte* 5-7.

³⁷ Shelanski Petition Statement ¶ 10.

³⁸ ACS Reply Comments 47.

³⁹ *Qwest Order* ¶ 104.

⁴⁰ *EarthLink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *25 n.8 (D.C. Cir. Aug. 15, 2006).

⁴¹ See ACS Reply Comments 45.

⁴² *Id.*

II. GCI DOES NOT JUSTIFY ITS PROPOSED MARKET DEFINITIONS

As ACS has demonstrated in this docket, based on the uniformity of rates and the competitive alternatives available throughout the Anchorage Study Area, the Commission should treat Anchorage as a single geographic market and divide the product markets into mass market and enterprise customers. GCI fails to justify its proposal for granular geographic markets. GCI attempts to define markets more narrowly than wire centers, such that forbearance could never be achieved in certain areas. Nor does GCI present adequate support for carving out MDUs and small businesses as separate product markets simply because a carrier may face some complexities in reaching some customers in these areas.

A. The Anchorage Study Area, and Not GCI's Proposed Sub-Wire Center Definition, Is The Appropriate Geographic Market

As discussed in prior filings, Anchorage's limited size and the fairly uniform distribution of ACS and GCI facilities indicate that the entire study area should be considered one geographic market.⁴³ GCI's certified LEC area is the entire Anchorage Study Area, and GCI has a single switch that serves this entire area. While ACS has provided the Commission with data on Anchorage's five wire centers,⁴⁴ GCI attempts to divide ACS's wire center boundaries in order to retain access to UNEs in small pockets of Anchorage that are the most costly for any carrier to serve.

GCI attempts to define the geographic market based on the areas that ACS identifies in the NECA tariff.⁴⁵ In making this argument, GCI conflates the *Qwest Order*'s wire center analysis with the NECA tariff's categorization based on accounting classifications. The eleven NECA tariff locations include five actual stand-alone switches, as well as sub-areas served by ACS's remotes, each of which is hosted by one of the five wire center switches.⁴⁶ The remotes are listed by NECA merely because of their accounting classification, which is driven by the ability of the remotes to provide emergency stand-alone (non-interconnected) capability and which is used to calculate mileage for carrier access billing. An arbitrary software modification changing the emergency stand-alone capability would alter these accounting classifications.⁴⁷ In any event, the tariff listing is irrelevant in determining what constitutes an economic "market" for purposes of the unbundling analysis.

⁴³ See, e.g., *id.* at 10-12.

⁴⁴ *Id.* at 5-6; Sprain Statement.

⁴⁵ GCI *Ex Parte* 13.

⁴⁶ The Commission has found that wire centers serve "as the appropriate level of geographic granularity at which to assess requesting carriers' impairment" because they capture both the actual and potential competition in a given market. *Covad Commc'ns Co. v. FCC*, 450 F.3d 528, 541 (D.C. Cir. 2006) (quoting and affirming *In the Matter of Unbundled Access to Network Elements*, Order on Remand, 20 F.C.R. 2553, 2620 (2005)).

⁴⁷ Meade Statement ¶ 4.

GCI advocates defining as separate wire centers certain areas in which it chooses to remain on UNEs.⁴⁸ Geographic markets are not determined by the location of a CLEC's facilities, however, and for good reason. GCI admits that it is upgrading its network in high-density areas. Because Rabbit Creek and O'Malley are low-density areas, the record supports the conclusion that it is cheaper for GCI to remain on UNEs in these portions of ACS's South wire center. By defining markets below the wire center level, GCI hopes to ensure that it will never have to deploy facilities to less profitable customers. Allowing GCI to carve out small geographic areas within a wire center in which it can continue to rely on UNEs would contradict the Commission's policy of promoting the development of facilities-based competition. Alternatively, forbearing from UNE obligations in the entire wire center would encourage GCI to deploy facilities in these smaller areas.

B. The Peculiarities of Serving MDUs and Small Businesses Do Not Justify The Establishment of Separate Product Markets

1. MDUs Do Not Present Such Unique Obstacles As To Constitute A Separate "Market"

As discussed in ACS's earlier filings in this docket, the costs associated with serving MDUs do not render them a separate product market.⁴⁹ While GCI renews its argument to treat MDUs as a separate market, it still has not identified a demonstrated problem serving MDUs, and certainly not any problem that rises to the level of impairment. In response to unrefuted evidence that it serves an MDU location such as the Alpine Apartment complex, GCI only protests that this is an aberration.⁵⁰ For this statement to be credited, however, GCI must be more forthcoming with hard evidence. GCI has declined to provide record evidence of its customer and facilities locations. As discussed below, GCI fails to demonstrate that it cannot access customers in MDUs.⁵¹ If GCI does not present clear evidence that it lacks access to a market, the Commission may not conclude that it is impaired.⁵²

There are other flaws in GCI's arguments as well. Although GCI attempts to argue that numerous buildings in Anchorage have over 10 residential units,⁵³ GCI's own analysis shows that 88% of Anchorage housing units are in buildings with 9 or fewer units.⁵⁴ GCI also fails to

⁴⁸ GCI *Ex Parte* 13-14.

⁴⁹ ACS Reply Comments 15-16; ACS May 31 *Ex Parte* 2; ACS Apr. 3 *Ex Parte* 4.

⁵⁰ GCI *Ex Parte* 23.

⁵¹ GCI has not filed any complaint regarding its inability to access conduit in MDUs.

⁵² *Covad*, 450 F.3d at 548.

⁵³ GCI *Ex Parte* 24; The Types of Housing Units in Anchorage Municipality, Alaska in 2001, GCI *Ex Parte*, attached thereto as Exhibit F ("Housing Units in Anchorage").

⁵⁴ See Statement of Charles L. Jackson in Support of ACS's *Ex Parte* Submission Filed September 8, 2006 ¶ 2, attached hereto as Exhibit C ("Jackson Statement") (discussing Housing Units in Anchorage). GCI also questions ACS's characterization of Anchorage MDUs as having 4-6 units

make a compelling case concerning the practical difficulties it will face in serving customers in MDUs.⁵⁵ For example, with respect to GCI's complaint that telecommunications closets may not have adequate space, GCI has already identified a technical solution in a potential 12-line eMTA that will alleviate space concerns.⁵⁶ In fact, in its most recent earnings call GCI described the "MDU problem [as] largely solved" because "the new MDU boxes work."⁵⁷

Additionally, it is unclear why GCI would need to upgrade the wiring in apartment buildings "so that it functions at the higher standard necessary to provide digital service."⁵⁸ When GCI connects its equipment to the wiring in an MDU, it connects to the inside wiring at a point closer to the customer than does ACS.⁵⁹ Therefore, if the wiring is sufficient for ACS's service, GCI's signal quality should be at least the same because of the close proximity of GCI's equipment to the customer.⁶⁰ Thus, GCI should not have to upgrade the inside wiring. Moreover, issues such as security of equipment in the telecommunications closet and winning access to customers are encountered by ACS and other carriers alike. GCI's detailed description of how a technician installs GCI equipment to a customer's line may involve more effort than using ACS's UNEs, however, what GCI describes entails the same costs that ACS faces in serving new customers in MDUs, and in any event, does not establish a barrier to entry.⁶¹ Indeed, even assuming these so-called difficulties are unavoidable for a reasonably efficient competitor, they cannot be said to rise to the level of impairment under the Act.

2. Small Businesses Also Do Not Present Any Unique Difficulties For Competitors

Enterprise customers in Anchorage comprise a single product market and enjoy the benefits of competition, regardless of the level of services the customer requires.⁶² Services to

based on an incorrect cite. GCI *Ex Parte* 24 & n.123. This information is found in ¶ 5 of Statement of Randall W. Poor, attached to ACS's Reply Comments as Exhibit B ("Poor Statement").

⁵⁵ GCI *Ex Parte* 22-23.

⁵⁶ *Id.* at 22 n.107.

⁵⁷ General Communication, Inc. Q2 2006 Earnings Call Transcript 6 (Aug. 9, 2006), attached hereto as Exhibit F ("GCI Earnings Call").

⁵⁸ GCI *Ex Parte* 23; *see also* Declaration of Kevin Sheridan ¶ 13, GCI *Ex Parte*, attached thereto as Exhibit A.

⁵⁹ Jackson Statement ¶ 3.

⁶⁰ *Id.*

⁶¹ Statement of Nicholas Jordon in Support of ACS's *Ex Parte* Submission Filed September 8, 2006 ¶¶ 2, 4, attached hereto as Exhibit D ("Jordon Statement") (describing how ACS incurs the cost of deploying a service technician each time it commences service to a new customer in an MDU to ensure that the customer's inside wiring is connected to ACS's NID).

⁶² ACS Reply Comments 18-19.

similarly situated Anchorage businesses are priced uniformly.⁶³ GCI asserts that the customers that it cannot reach have different competitive alternatives than customers located on GCI's cable or fiber plant.⁶⁴ However, GCI does not submit maps of its cable, fiber and wireless facilities and their relationship to customers to justify this claim.

Moreover, as ACS emphasized in its previous submissions in this docket, even if certain customers are not within GCI's easy reach today, these customers still get the benefit of ACS's competitive pricing and averaged rates.⁶⁵ GCI has the same opportunity to win these customers as does ACS. There is no reason to treat these customers as a separate market. If GCI's suggestion were followed, each business customer would be an individually priced market, and every business to which GCI cannot profitably build facilities should be defined as a market where there is "impairment." This would result in an unworkable standard. The D.C. Circuit recently affirmed the Commission's finding that a building-by-building approach would be "an administrative nightmare, a font of endless litigation, and an ineffective metric of impairment."⁶⁶

While GCI argues that it does not have cable plant in some small business areas,⁶⁷ GCI fails to account for alternative technologies in assessing its ability to serve these customers.⁶⁸ GCI indicates that wireless local loops ("WLLs") are not designed to replace UNEs throughout Anchorage.⁶⁹ However, GCI does not submit evidence to rebut ACS's contention that it could use WLLs for small business customers that are not on GCI's cable network. As ACS noted in its Reply Comments, ACS field technicians have seen GCI's WLL equipment installed on the premises of small businesses in Anchorage.⁷⁰ GCI does not explain whether targeted use of WLLs would reduce the costs and burdens of serving small businesses using GCI's own

⁶³ Statement of David C. Eisenberg ¶ 3, ACS Reply Comments, attached thereto as Exhibit C ("Eisenberg Statement").

⁶⁴ GCI *Ex Parte* 15.

⁶⁵ GCI argues that ACS charge averaged UNE rates in Anchorage by choice and that ACS could prevent any "cherry-picking" by GCI of low-cost customers by offering UNEs at deaveraged rates. *See* GCI *Ex Parte* 18. However, deaveraged UNE rates would be unnecessary with the implementation of a commercially negotiated rate. Further, based on the high levels of competition, increasing rates for a certain class of customers is not commercially feasible. *See* Eisenberg Statement ¶ 3; *see also* Statement of Howard A. Shelanski in Support of ACS's *Ex Parte* Submission Filed September 8, 2006 ¶ 11, attached hereto as Exhibit E ("Shelanski Statement") ("Customers alienated by non-competitive pricing and/or poor service would prove easy targets for competitors whose expanded offerings are imminent. ACS is thus already in the position of having to competitively defend its entire market share from rival offerings.").

⁶⁶ *Covad Commc'ns Co. v. FCC*, 450 F.3d 528, 544 (D.C. Cir. 2006) (citing *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Order on Remand, 20 FCC Rcd 2533, 2620-25 (2005)).

⁶⁷ GCI *Ex Parte* 24.

⁶⁸ *See* ACS Reply 37-40.

⁶⁹ GCI *Ex Parte* 10.

⁷⁰ Poor Statement ¶ 4.

facilities. Furthermore, GCI itself admits that “none of the challenges that GCI faces in deploying customer-powered DLPS is insurmountable given sufficient time and opportunity.”⁷¹ ACS does not believe that a transition to GCI’s own facilities will be effortless. But the statute does not require effortlessness. Given the status of GCI’s current customer base and facilities, the amount of work remaining does not rise to the level of a barrier to entry. Thus, there are no grounds for treating small business as a separate product market.

III. GCI HAS NOT MET ITS BURDEN TO PROVE IMPAIRMENT WITHOUT ACCESS TO UNES

Under Section 10 of the Act, ACS must be granted forbearance because it has made the required showing that enforcement of the UNE obligation no longer is necessary. The burden thus has shifted to GCI to prove that a reasonably efficient competitor would be impaired without UNES. The D.C. Circuit recently affirmed that the Communications Act presumes no impairment, and UNES only should be imposed when CLECs prove impairment.⁷² Nothing that GCI describes in its comments or *ex parte* submissions rises to the level of “impairment” that would require continued access to UNES under Section 251(c)(3). The robust competition in Anchorage justifies forbearance consistent with the *Qwest Order*, and GCI has failed to prove impairment with respect to serving either residential or business markets.

A. Anchorage’s Facilities-Based Competition Satisfies the *Qwest Order*’s Forbearance Standard

The wireline and intermodal networks in Anchorage justify forbearance. GCI’s well-developed network—with its own switching and transport facilities, wireless local loops, fiber, copper and coaxial loop facilities, and high capacity facilities—allows it to reach the vast majority of Anchorage customers on its own facilities.⁷³ GCI backpedals from its own expert’s analysis, which shows that GCI can serve nearly all customers on its own network, and claims that these projections were “long-term” rather than short-term projections.⁷⁴ However, GCI has publicly stated that it can upgrade almost all of its entire network in Anchorage by the end of next year.⁷⁵

⁷¹ GCI *Ex Parte* 25.

⁷² *Covad*, 450 F.3d at 548 (“[T]he 1996 Act does not obligate the ILECs to prove non-impairment—it forces the CLECs to prove impairment.”).

⁷³ ACS Reply Comments 25-26, 27-28 (discussing Dr. Howard Shelanski’s analysis that GCI can serve at least [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of its customers today without ACS facilities).

⁷⁴ GCI *Ex Parte* 9.

⁷⁵ GCI Earnings Call 8. GCI also attempts to narrow the meaning of “commercially reasonable amount of time,” as used by the Commission in the *Qwest Order*. GCI *Ex Parte* 8. However, GCI’s proposal to define a commercially reasonable time period as 30 days in this context has no basis. The Commission has not defined “commercially reasonable” in this manner.

The impairment standard under Section 251(c)(3) does not permit limiting consideration of competitive facilities to a single technology.⁷⁶ Alternative technologies available to GCI must be considered in assessing GCI's ability to reach customers in a commercially reasonable amount of time. These technological solutions allow GCI to serve customers over its own facilities both today and in the near future.⁷⁷ GCI is not impaired merely because it chooses to rely on UNEs instead of building out its facilities using alternative technologies that exist today. There are commercially reasonable DS-1 solutions over cable facilities that have been used for the last two decades.⁷⁸ GCI only argues that such equipment is not "industry-certified." GCI does not argue that such equipment is unavailable, that it is uneconomical to use this equipment, or that it is not industry-standard. GCI estimates that commercial deployment of such technology is "a good two years away."⁷⁹ However, even if GCI's assessment is correct, this timeframe is consistent with the two-year window that, from an economic perspective, is widely accepted as a reasonable period that does not warrant continued regulation to ensure competition.⁸⁰ Finding that forbearance is warranted under these circumstances is not inconsistent with the *Qwest Order*.

As in Omaha, intermodal networks provide additional alternatives which further justify forbearance.⁸¹ The already established VoIP and CMRS services in Anchorage ensure that ACS's traditional wireline network is not necessary for local exchange services.⁸² The Commission should look at all alternatives, not just a single technology, when assessing whether new entrants would be impaired in providing local exchange service in Anchorage. This approach is consistent with the *SBC-AT&T Order*, in which the Commission found that VoIP and mobile wireless were effective substitutes for wireline local services for an increasing number of customers.⁸³

⁷⁶ *Covad*, 450 F.3d at 548.

⁷⁷ ACS Reply Comments 37-40.

⁷⁸ Jackson Statement ¶ 6.

⁷⁹ GCI *Ex Parte* 27.

⁸⁰ See Shelanski Statement ¶ 10 (explaining that the U.S. DOJ & FTC, 1992 *Horizontal Merger Guidelines* § 3.2, 57 Fed. Reg. 41,552 (1992) designates two years as the period in which it will consider "committed entry alternatives" in a relevant market).

⁸¹ ACS Reply Comments 29 (noting that the Commission explicitly looked to intermodal competition in the *Qwest Order*).

⁸² ACS Petition 16-17; ACS Reply Comments 29-31.

⁸³ *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer and Control*, Memorandum Opinion and Order, 20 FCC Rcd 18290, ¶¶ 85-90 (2005) ("*SBC-AT&T Order*"). GCI attempts to discount CMRS competition by citing a footnote in the *SBC-AT&T Order* stating that that "the record d[id] not present credible evidence that mobile wireless services have a price constraining effect on all consumers' demand for primary line wireline services." *Id.* at ¶ 90 n.277, cited in GCI *Ex Parte* 11. GCI omits the Commission's ultimate conclusion that, particularly because "competition between mobile wireless and wireline service will likely increase in the near term," "mobile wireless

B. GCI Is Impaired With Respect To Neither Residential Nor Business Services

1. GCI Has Not Shown That It Is Impaired With Respect To Residential Customers.

ACS is no longer the dominant provider in the local exchange and exchange access market.⁸⁴ Despite the fact that this market has been found competitive and that a range of new technologies and alternative facilities continue to proliferate, GCI argues that it would face too many challenges to serve residential customers without UNEs.⁸⁵ None of GCI's arguments supports a finding of impairment.

GCI laments the fact that the cable industry did not select network-powered DOCSIS as the preferred technology, which resulted in a lack of innovation and price reductions for this product.⁸⁶ However, the benefit of using DOCSIS-standard technology is that the transition from network-powered to customer-powered equipment did not require changes to GCI's DOCSIS network technology or equipment.⁸⁷ GCI's use of customer-powered cable telephony equipment going forward demonstrates that GCI can mix and match network-powered and customer-powered equipment.⁸⁸ Additionally, GCI has stated that customer-powered units result in "a significant reduction in overall cost of deployment, as well as an . . . increase in the speed of that deployment in the new markets by not having to wait as long for as extensive a plant's upgrade."⁸⁹ Therefore, it is unlikely that having to switch to a customer-powered approach has harmed GCI's ability to move forward with its DLPS implementation or resulted in prohibitively high costs. Although GCI claims that the shift to customer-powered equipment has slowed the rate at which it is converting customers to its own facilities, GCI cites no technical impairment as the cause of the delay.⁹⁰ GCI argues that this delay is evidence that the Commission should not rely on GCI's deployment schedule and only rely on GCI's actual facilities deployment to date. However, GCI's proposed approach would encourage GCI to halt deployment and to continue to

services should be included within the product market for local services to the extent that customers rely on" CMRS as a substitute for wireline service. *Id.* at ¶ 90. *See also EarthLink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *25 n.8 (D.C. Cir. Aug. 15, 2006) (affirming the Commission's reasoning in the *Verizon Order*, 19 FCC Rcd 21496, at ¶ 26 (2004), that wholesale markets do not pose concerns because CLECs have alternative ways to compete and BOCs will be inclined to offer reasonable wholesale rates because they face intense intermodal competition inducing them to find ways to keep traffic on-net).

⁸⁴ ACS Reply Comments 22-23 (discussing the fact that ACS possesses less than half of the market share in these areas, leading the RCA to find ACS nondominant and the retail local exchange market competitive).

⁸⁵ GCI *Ex Parte* 20-22.

⁸⁶ *Id.* at 20.

⁸⁷ Jackson Statement ¶ 5.

⁸⁸ *See* GCI *Ex Parte* 20.

⁸⁹ GCI Earnings Call 10.

⁹⁰ *See* GCI Aug. *Ex Parte* 2.

rely on UNEs at regulated rates. This approach is contrary to the forward-looking analysis that GCI itself advocates in its comments in this docket, as well as the D.C. Circuit's recent conclusion that the Commission may make a determination to forbear from Section 251 based on future expectations regarding competition.⁹¹

Further, GCI does not refute ACS's demonstration that GCI's DLPS capabilities blanket Anchorage, including the provision of service to significant segments of each of the five wire centers.⁹² Instead, GCI overstates the practical tasks involved in serving customers without UNEs.⁹³ For example, although GCI contends that node modifications can only occur from May to October because of Anchorage's weather,⁹⁴ node splitting can be done all year because it occurs in an enclosure. GCI confirms in its most recent earnings call that once the cable plant is upgraded, the conversion is not seasonal and can occur quickly.⁹⁵ GCI asserts that almost all of its outside plant in Anchorage, Fairbanks and Juneau will be ready for conversion next year.⁹⁶ Additionally, GCI's use of customer-powered equipment resolves the issues relating to seasonal construction required for network-powered equipment.⁹⁷

Therefore, the challenges that GCI faces in reaching new customers do not amount to impairment for a reasonably efficient competitor nor for this competitor. As mentioned above, ACS is not required to show that there are *no* costs to GCI in transitioning its customers to its own facilities. However, GCI now has more market share than ACS in Anchorage and several intermodal alternatives are available in the market.⁹⁸ GCI has failed to show that continuing its transition to DLPS or negotiating with ACS for mutual access on market-based terms would rise to the level of impairment that justifies continued mandatory access to UNEs.

2. GCI Has Not Shown That It Is Impaired With Respect To Business Customers.

As evidenced by GCI's substantial enterprise market share and extensive fiber and fixed wireless networks,⁹⁹ GCI is fully competitive in the business market. In its most recent earnings

⁹¹ *EarthLink v. FCC*, No. 05-1087, 2006 U.S. App. LEXIS 20819, at *17-19 (D.C. Cir. Aug. 15, 2006).

⁹² ACS Reply Comments 38; *see also* Pinpoint Map attached as Exhibit 1 to ACS May 31 *Ex Parte*.

⁹³ GCI *Ex Parte* 21-22.

⁹⁴ *Id.* at 21.

⁹⁵ GCI Earnings Call 8 (stating to investors that node splitting is not seasonal).

⁹⁶ *Id.*

⁹⁷ Jackson Statement ¶ 5 n.8.

⁹⁸ GCI recognizes in its most recent earnings call that consumers substitute wireless services for wireline. *See* GCI Earnings Call 6 (explaining that wireless substitution for wired lines has resulted in a decrease in wireline customers and led GCI to offer bundles that include wireless but not wireline service).

⁹⁹ ACS Reply Comments 23-24.

call, GCI touts its conversion of 100 commercial local access lines to its own facilities in the first quarter of 2006.¹⁰⁰

GCI argues that it is hindered in offering DS1-equivalent technology over its cable-based DLPS plant.¹⁰¹ However, GCI never submits data explaining where its customers are in relation to its cable or fiber networks. GCI's analysis regarding the percentage of residential and commercial buildings it can potentially serve is based on unsubstantiated assumptions.¹⁰² In its analysis, GCI only cites the unexplained figure of 80 feet as the distance for serving customers from its existing cable.¹⁰³ GCI's expert asserts that this distance is consistent with a drop length of 150 feet, but does not explain how the distance of a parcel relates to the drop length.¹⁰⁴ GCI also fails to provide any data to support its assumption that a distance of 80 feet reasonably corresponds to the industry-recognized lengths for cable plant drops, which can be as long as 400 feet. Indeed, the 80 foot cutoff used in GCI's analysis could exclude parcels that fit within this 400 foot parameter.¹⁰⁵ Further, GCI does not offer any sensitivity analysis to explain how changes in that distance will affect the number of customers that it estimates that it can serve in a commercially reasonable amount of time.¹⁰⁶

Moreover, GCI's assumption regarding the classification of buildings as residential and commercial properties appears to be entirely arbitrary and unrelated to where the buildings are actually located.¹⁰⁷ GCI does nothing to demonstrate the reasonableness of the cutoff value that it selects to distinguish commercial properties from residential properties. GCI provides neither a comparison of this cutoff amount to real-world values, nor a sensitivity analysis to demonstrate whether its estimates for locations "near" its facilities might change if a different value were used.¹⁰⁸ Much like the analysis GCI included in its Comments regarding the customers it can serve over its own facilities, GCI's "black box" analysis in the *ex parte* does not provide sufficient information to evaluate it in any meaningful way.¹⁰⁹ Most significantly, GCI's

¹⁰⁰ GCI Earnings Call 2.

¹⁰¹ GCI *Ex Parte* 26-29.

¹⁰² See Exhibit 1, attached to Declaration of Alan Mitchell ("Mitchell Decl."), attached as Exhibit D to GCI *Ex Parte*.

¹⁰³ See Shelanski Statement ¶ 3 (discussing Mitchell Decl. ¶¶ 3-5).

¹⁰⁴ See *id.*

¹⁰⁵ *Id.*

¹⁰⁶ See *id.* ¶ 4.

¹⁰⁷ See *id.* ¶¶ 5-6.

¹⁰⁸ *Id.*

¹⁰⁹ In his statement, Mitchell concedes that the calculations are static and do not represent the number or percentage of facilities that GCI could serve entirely over its own facilities in a commercially reasonable time. Mitchell Decl. ¶ 2. This calculation is inconsistent with data previously submitted by GCI in a statement by William P. Zarakas and severely underestimates GCI's facilities-based presence in the Anchorage Market. Shelanski Statement ¶ 9.

estimates are a poor proxy for a map of its facilities and actual customer locations identified by type and current method of facilities-based service.¹¹⁰ Therefore, GCI cannot meet its burden to show impairment based on an incomplete analysis.

GCI also does not explain that it has the capabilities and facilities to provide DS1 equivalents using wireless and fiber facilities it already has deployed in Anchorage's business districts. GCI does not dispute that thousands of CMRS cell sites in the United States use DS1 microwave for backhaul.¹¹¹ GCI's FCC microwave license used to serve one of its large business customers indicates that GCI is capable of providing 15 DS1s on that link.¹¹² GCI argues that WLLs do not provide robust coverage; however, WLL can certainly be used to fill in gaps in coverage of other technologies either in the short term or long term.

GCI downplays the advantages it has serving high-capacity customers over its extensive fiber facilities. While it is generally true that coaxial cable facilities are not typically used for high-capacity business services on a large-scale basis,¹¹³ fiber facilities are ideally suited for serving business customers. GCI does not dispute that its fiber facilities would be sufficient to meet the needs of business customers in Anchorage. Fiber is often the most economical option for sites that require multiple DS1s, and for bigger buildings in general. However, GCI has not fully described the extent of its fiber deployment to locations in Anchorage or the number of fiber lines on the basis of customers or premises. Moreover, although GCI claims that small businesses cannot economically be served by fiber,¹¹⁴ other carriers in the U.S. have determined that deploying fiber to residential customers is profitable.¹¹⁵ And of course, sometimes small business are in large buildings that can be easily and efficiently served by fiber.

As ACS has illustrated, there are very few customers in Anchorage that require multiple DS1 and higher capacity lines.¹¹⁶ There are also, therefore, only a small number that might request the integrated packages with both higher and lower capacity lines, to which GCI refers.¹¹⁷ Moreover, GCI's emphasis on the inability to provide master clocking systems without UNEs does not indicate impairment. Indeed, very few customers need master clocking services:

¹¹⁰ Shelanski Statement ¶ 8.

¹¹¹ See GCI *Ex Parte* 8; GCI noted in its most recent earnings release that it lost a significant fiber optic cable customer to a competitor that is using a microwave system for the customer's traffic. GCI Q2 2006 Earnings Release 2, attached hereto as Exhibit G.

¹¹² Jackson Reply Statement ¶¶ 10, 17.

¹¹³ GCI *Ex Parte* 28; Declaration of Dennis Hardman ¶ 7, GCI *Ex Parte*, attached thereto as Exhibit G.

¹¹⁴ Mitchell Decl. ¶ 11.

¹¹⁵ Verizon is in the midst of a \$20 billion campaign to bring fiber to homes throughout the country. See *Beyond Cable. Beyond DSL*, THE WALL STREET JOURNAL (July 23, 2006); *Verizon Is Rewiring New York, Block by Block, in a Race for Survival*, THE NEW YORK TIMES (Aug. 14, 2006).

¹¹⁶ ACS Reply Comments 18 (noting that GCI has acknowledged that its enterprise customers do not purchase capacity higher than DS-1).

¹¹⁷ GCI *Ex Parte* 11.

only those customers (1) with DS1s at multiple locations, and (2) who are not using DS1s for internet access or packet data services.¹¹⁸ Business customers large enough to require master clocking services are natural candidates to be served using fiber facilities.¹¹⁹ GCI fails to illustrate the scope of this issue and does not disclose whether it has any customers that are inaccessible by GCI's fiber network and that have the need for clocking services. Based on the limited number of customers requiring multiple DS1s from ACS, it is unlikely that this issue rises to the level of impairment that would warrant continued access for GCI to ACS's UNEs.

Again, ACS does not dispute that GCI may not be able to serve *all* customers *immediately*. However, the work that GCI would need to undertake does not rise to the level of impairment justifying continued access to UNEs. The Commission has established in the *Qwest Order* that forbearance does not require that the CLEC be able to serve 100% of customers. Furthermore, GCI is not impaired if a few of its business customers do not instantly receive integrated packages or specialized services. The Supreme Court has squarely rejected the notion that any decrease in quality establishes impairment.¹²⁰

* * * * *

GCI has not met its burden to demonstrate impairment without UNEs. ACS's requested relief is consistent with the *Qwest Order* and would stimulate market competition by equalizing the bargaining positions of ACS and GCI. ACS urges the Commission to grant the forbearance relief requested in this docket.

Please contact the undersigned if you have any questions regarding this submission.

Respectfully submitted,

/s/
Karen Brinkmann
Elizabeth Park
Anne Robinson

cc: Renee Crittendon
Marcus Maher
Pam Megna
Jeremy Miller
Thomas Navin

¹¹⁸ Jackson Statement ¶ 8.

¹¹⁹ *Id.*

¹²⁰ *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366, 389-90 & n.11 (1999).

LATHAM & WATKINS LLP

Tim Stelzig
Julie Veach

Exhibit A

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Petition of ACS of Anchorage, Inc. Pursuant to)	
Section 10 of the Communications Act of 1934, as)	WC Docket No. 05-281
Amended, for Forbearance from Sections 251(c)(3))	
And 252(d)(1) in the Anchorage LEC Study Area)	

**STATEMENT OF THOMAS R. MEADE IN SUPPORT OF ACS'S *EX PARTE*
SUBMISSION FILED SEPTEMBER 8, 2006**

1. The purpose of this statement is to respond to the arguments by General Communication, Inc. ("GCI") in its July 3, 2006 *ex parte* submission. The first section discusses why NECA tariff locations are inappropriate to use as geographic markets in forbearance analysis. The second part addresses ACS's willingness to provide access to UNEs through commercial negotiations.

Geographic Markets Should Not Be Defined By NECA Tariff Locations, Which Are Based On Accounting and Billing Classifications Rather Than Wire Center Boundaries.

2. GCI attempts to bolster its argument for expanding the number of wire centers used in the forbearance analysis by identifying the locations ACS listed in its NECA tariff.¹ GCI does not explain, however, that NECA tariff locations are determined by accounting and access charge practices rather than markets.

3. NECA Tariff #4 contains eleven locations: five switches and six remotes. Each remote has emergency stand-alone (ESA) capability and is hosted by one of the switches. ACS's

¹ *Ex Parte* Submission of General Communication, Inc. to the *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281, at 13-14 (filed July 3, 2006).

wire center categorization indicates where ACS has stand-alone switches (DMS-100s). The remotes are included as separate locations within NECA Tariff #4 to delineate the services available at the remotes, and to identify vertical and horizontal (V&H) coordinates to calculate mileage for carrier access billing. Because of their accounting classification under RAO letter 21, NECA Tariff #4 V&H coordinates are necessary to properly bill Tandem Switched Transport to and from the remotes.

4. A remote's ESA capability is determined by switch software rather than the marketplace. A software or hardware modification altering a remote's ESA capability would change the remote's accounting classification and the need to maintain separate locations within NECA Tariff #4. Thus, by citing ACS's NECA tariff locations in support of its proposed geographic market definition, GCI attempts to define markets by software distinctions and accounting categorizations rather than by market characteristics.

ACS Has Incentives To Negotiate With GCI To Offer UNEs At Reasonable Rates.

5. ACS has significant incentives to negotiate with GCI. GCI's facilities-based expansion in the Anchorage market has proven extremely successful. GCI also has key facilities in certain subdivisions and commercial buildings in Anchorage. ACS must negotiate with GCI in order to gain access to these critical network components. Furthermore, ACS generates a significant amount of revenue (approximately \$700,000 per month) by leasing loops to GCI in Anchorage, even at TELRIC rates.

6. GCI claims that ACS has been unwilling to negotiate Anchorage UNE rates in the past.² However, GCI and ACS entered into serious UNE negotiations in July and August of 2003. Embroiled in a seven-year-long RCA UNE rate proceeding, ACS was motivated and

² *Id.* at 19.

willing to negotiate with GCI. However, GCI ultimately opted to demand TELRIC rates at a November 2003 hearing rather than conclude commercial negotiations.

7. In Fairbanks and Juneau, GCI has successfully negotiated with ACS affiliates for access to facilities in Fairbanks and Juneau on commercial terms. Certain terms, such as continued availability of UNE-P, are more favorable to GCI than the requirements of the Communications Act and the FCC's rules.

8. GCI and ACS have recently entered into negotiations regarding a commercial arrangement that would include UNE rates and continued availability of UNEs in Anchorage, as well as continued access to UNE-P in Fairbanks and Juneau. ACS has clearly demonstrated its willingness to negotiate in these discussions. Prior negotiations in Anchorage have been hampered because ACS has been subject to UNE pricing regulations. In the past, GCI has chosen to arbitrate access to UNEs and demand TELRIC pricing of UNEs, rather than negotiating commercial agreements.

9. GCI also misrepresents negotiations in the Glacier State study area in its attempt to depict ACS as unwilling to negotiate.³ First, the Glacier State area is not analogous to the Anchorage market. Glacier State is a low-density, rural market that qualifies for a Section 251(f) rural exemption. Second, GCI mischaracterizes ACS's reluctance to willingly forego its rural exemption in the Glacier State study area as an unwillingness to negotiate with GCI in Anchorage. ACS did not oppose GCI's application to provide local service in Glacier State when GCI represented to the RCA that it would use its own facilities to enter Glacier State.⁴ It

³ *Id.* at 19-20.

⁴ ACS included the letter at issue as an exhibit to its Reply Comments to demonstrate GCI's use of WLL technology. See Letter to RCA re: Docket U-05-4, at 3 (Mar. 22, 2005), attached as Exhibit E-6 to Reply Comments of ACS of Anchorage, Inc. in Support of *Petition of ACS of Anchorage, Inc. Pursuant*

was only after GCI requested the use ACS's facilities and implied that it would seek termination of ACS's rural exemption that ACS asked the RCA to investigate GCI's representations that it would use its own facilities in Glacier State.⁵

Respectfully submitted,

/s/ Thomas R. Meade
Thomas R. Meade
Vice-President Carrier Markets and Economic
Analysis
600 Telephone Ave., MS 08
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to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area, WC Docket No. 05-281 (filed Feb. 23, 2006).

⁵ *See Ex Parte Submission by ACS Regarding Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) in the Anchorage LEC Study Area, WC Docket No. 05-281, at 3 (filed April 3, 2006).*

Exhibit B

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Petition of ACS of Anchorage, Inc. Pursuant to)	
Section 10 of the Communications Act of 1934, as)	WC Docket No. 05-281
Amended, for Forbearance from Sections 251(c)(3))	
And 252(d)(1) in the Anchorage LEC Study Area)	

**STATEMENT OF TED S. MONINSKI IN SUPPORT OF ACS'S *EX PARTE*
SUBMISSION FILED SEPTEMBER 8, 2006**

1. I am the Director of Regulatory Affairs for Alaska Communications Systems, the parent company of ACS of Anchorage, Inc. ("ACS"). I have been involved in public utility regulatory matters for approximately twenty-four years. I served as staff for the former Alaska Public Utilities Commission for ten years (five years as Deputy Director and five years as Executive Director). After a break of about two years, I spent the ensuing fourteen years as a regulatory representative for private sector telecommunications companies including Alascom, AT&T Alascom, the Anchorage Telephone Utility and, since its inception, ACS.

2. The purpose of this statement is to address representations made by General Communication, Inc. ("GCI") regarding the Regulatory Commission of Alaska's ("RCA") recently adopted "competitive market" regulations. I respond specifically to the conclusions set forth by G. Nanette Thompson in her declaration filed with GCI's July 3, 2006 *ex parte* submission.¹

¹ Declaration of G. Nanette Thompson ("Thompson Decl."), attached as Exhibit B to *Ex Parte* Submission of General Communication, Inc. to the *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3)*

Enactment of “Competitive Market” Regulations

3. I am very familiar with the regulatory changes to which Ms. Thompson refers in her statement. They virtually all flow from a state rulemaking docket – R-03-003 – which was prompted by a directive from the Alaska Legislature in 2002. The RCA concluded this docket in 2005. I was ACS’s regulatory representative in every phase of R-03-003. The RCA’s regulations became effective on September 16, 2005.² Since then, I have been involved in all aspects of the implementation of these new regulations, including initiating four separate adjudicatory proceedings in an effort to secure ACS’s ultimate access to the new regulations.

4. Although the regulations went into effect on September 16, 2005, they are not self-executing. These regulations make some important procedural changes but must be “triggered” by certain downstream RCA findings and orders. Specifically, the RCA must find that a particular market meets the new definition of “competitive market.” The RCA must also find and order that the incumbent local exchange carrier (“ILEC”) is no longer “dominant.” Thus, the regulations provide for measured change rather than broad and automatic relief.

5. By the terms of the new regulations, it was necessary for ACS to institute four adjudicatory proceedings in order to obtain these fact-based findings and the requisite orders. The relief ACS requested in Anchorage was granted approximately five months after the new regulations went into effect. The RCA has declared the Anchorage market to be competitive and further designated ACS as a nondominant LEC for the Anchorage market. The effect of these changes is to give ACS and all other Anchorage LECs access to a new, streamlined process for filing tariffs.

and 252(d)(1) of the Communications in the Anchorage LEC Study Area, WC Docket No. 05-281 (filed July 3, 2006).

² Order Closing Docket, R-03-003(17), at 1 ll. 16-18, (Sept. 28, 2005).

6. Ms. Thompson points out that GCI did not oppose ACS's Anchorage nondominance petition.³ However, during the two years that docket R-03-003 was moving through the RCA's rulemaking process, GCI consistently opposed expanded retail market relief for providers in competitive markets. GCI argued that the regulations that existed prior to R-03-003 were fully adequate to respond to the needs of competitive markets and opposed relaxed regulation beyond the level available under the RCA's prior rules. GCI strenuously opposed any suggestion that retail service offerings be detariffed.

7. As the RCA was nearing completion of the final version of new regulations, the RCA staff proposed and GCI endorsed a "carve out" of certain ILEC services that would remain regulated under dominant carrier rules even in markets where all carriers were designated nondominant. These services included not only line extensions and new construction, but also the admittedly highly competitive area of special access services. The RCA ultimately adopted the staff/GCI proposal to continue dominant carrier regulation for these services.⁴ The RCA uses an abundance of caution when determining which services are afforded a reduced level of regulation.

Effect of "Competitive Market" Regulations

8. Although the RCA has taken a significant step in the right direction in enacting competitive market regulations, the effects of the R-03-003 regulations are largely procedural. ACS specifically asked the RCA to deregulate retail services in competitive markets and the RCA declined to do so.⁵ ACS also proposed detariffing in a manner similar to the approach used

³ Thompson Decl. ¶ 3.

⁴ 3 AAC § 53.220(c).

⁵ Comments of ACS, R-02-06/R-03-03, at 14 l. 12-15 l. 26 (Jan. 21, 2004).

by the FCC for interstate interexchange services. Again, the RCA declined.⁶ While processing timelines have changed and advance tariff approval in many instances is no longer required, tariffs – in the same format and including the same level of detail as historically prescribed – must still be filed and kept current at the RCA.⁷ The RCA’s ability to review these filings at any point in time and to challenge them using all of the legacy statutory standards remains unchanged. The regulations have not resulted in the “substantial deregulation of nondominant carriers,”⁸ as Ms. Thompson asserts.

9. Ms. Thompson erroneously concludes that the historical requirement that retail rates in Anchorage be “just and reasonable” no longer exists.⁹ Ms. Thompson puts great weight on the fact that the RCA’s regulations specifically mention a non-discrimination standard but exclude a just and reasonable standard.¹⁰ As already noted, ACS asked the RCA to use its authority in AS 42.05.711(d) to waive the statutory requirement that rates be “just and reasonable.” GCI objected and the RCA declined to waive the “just and reasonable” requirement.¹¹ Although the words “just and reasonable” are not included in the retail rate section of the new regulations, the statutory standard still exists and has not been waived or amended.¹² There is nothing to prevent the RCA from investigating a rate that it believes is not “just and reasonable” and ordering a modification to a rate that it finds to be inconsistent with

⁶ ACS Comments in Response to Workshop Issues and Questions, R-03-03, at 21 l. 21-22 l.16 (Mar. 7, 2005).

⁷ 3 AAC § 53.243(b), (d), (f).

⁸ Thompson Decl. ¶ 3.

⁹ *Id.* at ¶ 2.

¹⁰ *Id.* at ¶ 6.

¹¹ GCI’s Supplemental Reply Comments and Proposed Regulations, R-02-06/R-03-03, at 3 l. 18-4 l. 6 & n.5 (Feb. 24, 2004).

¹² AS 42.05.381; *see also* Thompson Decl. ¶ 7 (noting that “the language in the RCA’s governing statute grant[s] the RCA authority generally to ensure that rates are just and reasonable”).

this standard. There is also no reason to believe that the RCA would not assert its authority to enforce the statutory standard.

10. In her declaration, Ms. Thompson states that “the regulations only apply to ‘retail’ services, and thus do not impose even nondiscrimination obligations on the rates and terms of wholesale service.”¹³ In reality, the new regulations have a specific section addressing wholesale services. That section mandates that wholesale services be made available to other carriers “consistent with 47 U.S.C. § 251 and § 252 (Telecommunications Act of 1996).”¹⁴ To the extent that federal law requires nondiscriminatory access to wholesale services, the requirement has been incorporated by reference in the RCA’s regulations.

11. Ms. Thompson has no basis for concluding that the RCA is unlikely to challenge a nondominant carrier’s tariff or rates unless it is called upon to adjudicate a complaint.¹⁵ At this juncture, it is not clear how the RCA and its staff will address tariffs that they might find objectionable. However, it is important to note that during the course of R-03-003, ACS specifically proposed a regulation that would limit regulatory intervention to those issues advanced in a complaint filed in accordance with the RCA’s complaint procedures. In its reply comments, GCI argued that ACS’s due process arguments were without merit and that its proposal would be impractical to implement. GCI also noted that there were numerous areas in which investigations were initiated by the RCA’s own staff and that the state’s Department of Law was inadequately staffed to assume the RCA’s responsibility of initiating tariff-related complaints.¹⁶ In rejecting ACS’s recommendation, the RCA demonstrated a clear intent to

¹³ Thompson Decl. ¶ 4.

¹⁴ 3 AAC § 53.250(a).

¹⁵ Thompson Decl. ¶ 7.

¹⁶ GCI Reply Comments, R-03-03, at 11 l. 23-12 l. 21 (May 19, 2005).

preserve the ability to investigate matters on its own motion and outside the scope of its complaint procedures. Given that we are still at the very outset of implementation of these new regulations, it is impossible to predict when and how often the RCA will investigate tariffs outside the complaint process. The state of the law, however, is clear. Statutory standards remain enforceable.

12. Ms. Thompson disputes that ACS will be subjected to “rigorous reviews of its rates to ensure, for example, that they are cost-based or do not reflect market power.”¹⁷ Any prediction at this point of the nature of an RCA rate review under the new regulations is highly speculative. However, based on the new regulations, the RCA has retained its authority to review rates where necessary. At GCI’s repeated urging, the RCA adopted a regulation that applies the principles of state and federal antitrust law and may act to “prevent predatory pricing.”¹⁸ The RCA could not conduct a predatory pricing analysis without including considerations of cost of service and market power.

13. Contrary to Ms. Thompson’s assertion, ACS does not have “substantial freedom to raise its rates.”¹⁹ The marketplace will discipline its participants and will prevent – or quickly punish – ill-advised rate increases. Beyond that, the new RCA regulations set specific annual limits for residential and single line business rate increases.²⁰ Finally, as already stated, the RCA continues to have access to the full panoply of regulatory tools to address a rate increase that it believes violates the statutory standards.

¹⁷ Thompson Decl. ¶ 8.

¹⁸ 3 AAC 48.315(d).

¹⁹ Thompson Decl. ¶ 3.

²⁰ 3 AAC 53.243 (c).

14. In addition to suggesting that the “just and reasonable” standard is no longer part of the RCA’s new regulations, Ms. Thompson also concludes that companies like ACS have substantial freedom to set prices for “bundles.”²¹ Although bundled services are indeed subject to the new streamlined procedural rules, the RCA added a new regulation directed at rate reduction for “bundles” which specifically authorizes the RCA to “prohibit an unjust or unreasonable bundled service.”²² Thus, while the RCA recognized that bundled service packages are subject to competition, it retained jurisdiction to review bundled offers.

15. Substantive standards remain enforceable both as to tariffs and special contracts. Ms. Thompson states that, “[t]he ability to implement special contracts without RCA approval therefore gives carriers significant freedom to negotiate individual agreements with business customers.”²³ As previously noted, the RCA’s new regulations constitute a significant step in the right direction. To its credit, the RCA included special contracts in its streamlined filing procedures. However, the same caveats that apply to tariff filings also apply to special contracts. Substantive statutory standards of review have not been waived or amended. Ironically, while GCI touts the value of special contracts in serving business customers, it has rarely filed any with the RCA and has filed none since the new regulations have been in effect.

Respectfully submitted,

/s/ Ted S. Moninski
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²¹ Thompson Decl. ¶ 10.

²² 3 AAC 48.315(d).

²³ Thompson Decl. ¶ 12.

Exhibit C

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Petition of ACS of Anchorage, Inc. Pursuant to)	
Section 10 of the Communications Act of 1934, as)	WC Docket No. 05-281
amended, for Forbearance from Sections 251(c)(3))	
and 252(d)(1) in the Anchorage LEC Study Area)	

**STATEMENT OF CHARLES L. JACKSON IN SUPPORT OF ACS'S *EX PARTE*
SUBMISSION FILED SEPTEMBER 8, 2006**

1. GCI's recent *ex parte* submission filed on July 3, 2006, discusses its ability to serve multiple dwelling units ("MDUs") and to use alternative technologies to reach customers beyond its current network. The purpose of this declaration is to clarify and correct GCI's misleading statements regarding both topics. First, GCI overstates the obstacles it faces in serving MDUs. Second, despite its claims to the contrary, GCI is able to reach both residential and business customers through available alternative technologies.

GCI mischaracterizes the difficulties it would confront in serving MDUs without UNEs.

2. GCI has not established a demonstrated problem serving MDUs. First, GCI's repeated concerns do not appear to apply to many buildings in Anchorage. GCI asserts that numerous buildings in Anchorage have more than 10 residential units.¹ However, GCI's

¹ *Ex Parte* Submission of General Communication, Inc. to the *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281, at 24 (filed July 3, 2006) ("GCI *Ex Parte*") (stating that data "demonstrates that of the Anchorage MDUs containing five or more units, more than 60% are larger than ten units").

analysis shows that 88% of Anchorage housing units are in buildings with 9 or fewer units.²

3. GCI overstates the practical difficulties it will face in serving customers in MDUs. For example, GCI claims that it would need to “upgrade” the existing wiring in some apartment buildings in order to provide digital service, but these claims have no apparent basis in fact.³ The signal over that wiring is analog today and would remain analog if GCI provided its cable telephone service. If GCI were to provide service over that wiring, that wiring would carry the analog voice signal to GCI’s equipment where it would be converted to digital and transmitted over GCI’s cable infrastructure—the inside wiring would not carry the digital signal. The fact that GCI would use digital technology is immaterial. ACS’s system also digitizes the voice signal before switching it. ACS performs that analog-to-digital conversion either at a remote terminal or in a line card at the switch. In either case, ACS converts the analog signal to digital before it is switched. Moreover, GCI would connect its analog-to-digital conversion equipment to the inside wiring in an MDU—a point closer to the customer than does ACS. Therefore, the quality of the voice signal delivered to GCI’s equipment should be at least equal to the quality of the voice signal delivered to ACS’s analog-to-digital conversion equipment. If the wiring is sufficient for service today, there is no basis for thinking it would not also be compatible with GCI’s future use for voice communications.

Available technologies provide GCI with alternatives to ACS UNEs.

4. GCI considers alternative technologies one at a time—WLL, CMRS, point-to-point microwave, DS1 over cable—and argues that it still requires access to ACS facilities because

² The Types of Housing Units in Anchorage Municipality, Alaska in 2001, GCI *Ex Parte*, attached thereto as Exhibit F.

³ GCI *Ex Parte* 23; *see also* Declaration of Kevin Sheridan ¶ 13, GCI *Ex Parte*, attached thereto as Exhibit A.

each specific technology under consideration cannot meet all market needs.⁴ For example, GCI argues against CMRS service because it does not provide high-capacity services. However, the key question is not what one technology can deliver; rather, it is whether the entire set of technologies available to GCI provides a reasonable alternative to ACS's UNEs. For instance, although CMRS may not present a feasible alternative for certain high-capacity business users, microwave, fiber, cable extensions or additional service drops could allow GCI to reach these customers.

5. GCI also appears to overstate the challenges it faces in implementing new technologies.⁵ For example, GCI refers to its decision to deploy network-powered eMTAs as adoption of technology in absence of an industry standard and describes its decision to use customer-powered DLPS going forward.⁶ But GCI's network-powered eMTAs are DOCSIS devices and therefore take advantage of the industry investment in the development of DOCSIS chips, headend equipment, and terminals. Although the network-powered DOCSIS eMTAs initially implemented by GCI have not been widely adopted in the industry, resulting in a lack of innovation and price-reduction of this product, the use of the DOCSIS standard eMTAs lowered GCI's costs and made it possible for GCI to switch to the customer-powered DLPS that it now plans to use.⁷ Therefore, it is unlikely that having to switch to a customer-powered approach has hindered GCI's ability to progress with its DLPS implementation.

⁴ GCI *Ex Parte* 10-12.

⁵ *Id.* at 20-22, 26-28.

⁶ *Id.* at 20.

⁷ I note that in its initial filing in this proceeding, GCI describes many impediments to the rapid deployment of telephone service that its choice of network-powered eMTAs created and offers those impediments as reasons that its network was not a reasonable alternative to ACS UNEs. Opposition of General Communication, Inc., *Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the*

6. GCI mischaracterizes its ability to serve business customers without UNEs. GCI offers a wide range of reasons that its cable facilities are unable to deliver DS1 service. First, GCI argues that DS1 solutions over cable facilities are not a viable option because there is no “industry standards-certified equipment.”⁸ However, GCI does not claim (1) that there is no DS1 equipment available for their use, (2) that there is no such equipment that is economically efficient to use, or even (3) that there is no industry-standard equipment. The DS1 over HFC solutions that ACS has submitted into the record in this docket are commercially reasonable DS1 capabilities. DS1 service is not a new opportunity in the cable industry. During the 1980s, I worked with a cable client on the pricing of DS1 service. Cable companies have been providing DS1 and other high-speed data services for more than two decades.

7. Second, GCI asserts that the limited capacity of its cable plant restricts its ability to provide DS1 service to businesses—pointing out one node (of fourteen) in a business district that can support only two DS1s before additional capacity would have to be added.⁹ Again, GCI fails to take into account the entire portfolio of technologies that GCI uses. Fiber is well suited for serving business districts—especially for business customers in larger buildings that require multiple DS1s. GCI does not dispute that its fiber facilities would be sufficient to meet the needs of business customers in Anchorage. Third, although GCI asserts that it is unable to use WLLs to provide DS1 service, it does not dispute the availability of high-capacity microwave facilities to provide comparable service.

Communications Act Filed by ACS of Anchorage, WC Docket No. 05-281, at 25-28 (filed Jan. 9, 2006). GCI’s most recent filing states “in its continuing efforts to improve and speed deployment of cable telephony, GCI intends to install primarily customer-powered DLPS going forward.” GCI *Ex Parte* 20. Thus, GCI has resolved the problems of providing power to network-powered eMTAs described in its January filing.

⁸ GCI *Ex Parte* 2, 26-28.

⁹ *Id.* at 28.

8. Fourth, GCI asserts that issues with clock synchronization make the use of DOCSIS-based DS1 solutions problematic for some DS1 applications. However, GCI does not specify either the fraction of DS1 lines that would be affected by this limitation or the number of business customers that require DS1s with such clocking capabilities.¹⁰ As I understand the technology, very few business customers require master clocking services: normally those services are needed only by those customers who both (1) have DS1s at multiple locations and (2) use DS1s for voice service. Because a relatively small number of customers order service at the DS1 level—let alone DS1s at multiple sites—GCI’s concern appears to be essentially academic or theoretical.¹¹ Business customers large enough to require master clocking services, such as banks or federal government installations, are natural candidates to be served by fiber. Further, the non-DOCSIS, non-packet-based T1 technologies that I have referenced in previous statements in this docket that allow DS1 service to be provided over cable technologies do not suffer from the jitter issues associated with the DOCSIS packet technology.¹² Although such technologies would not interoperate with GCI’s DOCSIS equipment, they can be used over HFC cable plant in parallel with DOCSIS.

9. In conclusion, GCI’s analysis of technologies that provide it with alternatives to ACS’s UNEs is flawed and incomplete, and thus, is fundamentally misleading. GCI’s arguments only emphasize the applications for which a particular technology is not suited and ignore the

¹⁰ *Id.* at 26-27.

¹¹ Reply Comments of ACS of Anchorage, Inc. in Support of *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281, at 18 (filed Feb. 23, 2006).a 1

¹² Statement of Charles C. Jackson In Support of *Petition of ACS of Anchorage, Inc. for Forbearance from Section 251(c)(3) and 252(d)(1)*, at 9-12, attached as Exhibit E to ACS Reply Comments.

ideal uses for such technology. For instance, GCI believes that CMRS service cannot provide DS1 service and that fiber is uneconomic for providing POTS to residential households.¹³ The proper approach is to select the technology most appropriate to serving each customer from the entire portfolio of technologies used by GCI. Thus, fiber should be considered for large enterprises and CMRS considered for providing POTS to isolated households and small businesses. An analysis based on the technologies appropriately suited to each customer location would likely show that GCI has ample alternatives to ACS's UNEs.

Respectfully submitted,

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¹³ See GCI *Ex Parte* 11 (“ACS likewise fails to explain how CMRS serves as a substitute for integrated packages of services and high capacity services necessary to provide comprehensive solutions to business customers.”); see also Declaration of Alan Mitchell ¶ 11, GCI *Ex Parte*, attached thereto as Exhibit D (“[F]iber is not an economical service method for residential and commercial buildings with less than eight lines.”)

Exhibit D

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Petition of ACS of Anchorage, Inc. Pursuant to)	
Section 10 of the Communications Act of 1934, as)	WC Docket No. 05-281
Amended, for Forbearance from Sections 251(c)(3))	
And 252(d)(1) in the Anchorage LEC Study Area)	

**STATEMENT OF NICHOLAS JORDON IN SUPPORT OF ACS'S *EX PARTE*
SUBMISSION FILED SEPTEMBER 8, 2006**

1. I am the Director of Field Services for ACS of Anchorage, Inc. ("ACS"). I have held this position for one-and-a-half years. I have thirty years experience in the communications field, focusing on wireless and wireline services. Prior to joining ACS, I worked for Alltel as the Vice President of Operations for the northeast United States. In my current position at ACS, I oversee the process of filling new residential customer orders. Therefore, I have knowledge regarding the procedures and tasks that ACS must undertake to fill a new service order from a residential customer in a multiple dwelling unit ("MDU").

2. When ACS receives a new residential customer order for service within a unit of an MDU, it provides the customer with an estimated time for commencement of service. In order to meet the promised deadline for receipt of service and to maintain a high level of customer service, ACS must deploy a service truck to ensure that the customer's inside wiring is properly connected to ACS's network interface device ("NID"). ACS has reliable means to test the connection to the customer remotely from ACS's offices. However, the test is sufficiently reliable only to the point where ACS's outside plant reaches the NID. In order to ensure that

ACS's NID is connected to the inside wiring, an ACS technician must physically inspect the connection. In cases where the new service order is from a customer in an MDU or in a residence that has been disconnected from ACS for more than 30 days, ACS automatically rolls a truck in order to avoid delays in commencing service to the customer.

3. In the past, ACS could trust that the wiring still connected the NID to the customer if ACS served the previous tenant residing in the unit or the home. Therefore, there was no need to roll a truck to ensure that the customer would receive a dial tone. However, ACS technicians often find that in such a scenario, the inside wire has been moved to GCI's NID. Even during my recent time at ACS, a significant number of ACS facilities have been disconnected and moved to GCI's NID. These instances are frequent enough to require ACS to dispatch a technician on a high percentage of orders where ACS served the previous tenant and should be able to assume that the inside wiring is still connected to ACS's NID. For example, I know of some instances in which the inside wiring had been moved to GCI's NID even though the previous tenant terminated its service from ACS two weeks prior to the new tenant ordering new service from ACS.

4. As a result, ACS technicians must physically inspect the wiring for every new customer's residence housed in an MDU or that has not received ACS service for 30 days to make sure it has not been disconnected from ACS's facilities. This policy has significantly increased the costs and practical difficulties ACS faces in serving MDU residents. However, physical inspections of ACS's connection under these circumstances are necessary to maintain a high level of customer satisfaction and quality of service.

Respectfully submitted,

/s/ Nicholas Jordon

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Exhibit E

REDACTED FOR PUBLIC INSPECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Petition of ACS of Anchorage, Inc. Pursuant to)
Section 10 of the Communications Act of 1934, as) WC Docket No. 05-281
amended, for Forbearance from Sections 251(c)(3))
and 252(d)(1) in the Anchorage LEC Study Area)

STATEMENT OF HOWARD A. SHELANSKI IN SUPPORT OF ACS'S *EX PARTE*
SUBMISSION FILED SEPTEMBER 8, 2006

1. This statement addresses several economic arguments found in General Communication, Inc.'s ("GCI's") *ex parte* submission filed on July 3, 2006.¹ I first discuss the statement of Alan Mitchell, GCI's economic analyst for this filing, and explain that his analysis is unsupported and irrelevant to an assessment of facilities-based competition in Anchorage. Second, I describe why technological alternatives affect competition even if they might not be fully implemented for two years.

2. GCI's *ex parte* includes an analysis estimating the number and percentage of residential and commercial building locations in the Anchorage Study Area that GCI can serve using its own facilities.² GCI does not provide any benchmark by which to measure the reasonableness of the assumptions used in the calculation of these estimates. Specifically, GCI's analysis fails to support the basis for the 80-foot distance of properties from GCI facilities and

¹ *Ex Parte* Submission of General Communication, Inc. to the *Petition of ACS of Anchorage, Inc. Pursuant to Section 10 of the Communications Act of 1934, as amended, for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications in the Anchorage LEC Study Area*, WC Docket No. 05-281 (filed July 3, 2006) ("GCI *Ex Parte*").

² Exhibit 1, attached to Declaration of Alan Mitchell ("Mitchell Decl."), attached as Exhibit D to GCI *Ex Parte*.

the correlation between the average assessed building value per line and the actual distribution of lines among the parcels.

3. In his statement, attached as Exhibit D to GCI's *ex parte*, Mr. Mitchell states that GCI selected 80 feet as the limit for which parcels of land that GCI considers to be potentially reachable using its facilities.³ GCI's only justification for selecting this value is that "it captures virtually all locations that are located on a street that has GCI facilities, as well as all locations on either side of a lot line along which GCI has facilities."⁴ Mr. Mitchell provides no technical or economic justification for choosing 80 feet as a relevant measure. Meanwhile, he acknowledges published research demonstrating that drop lengths for cable plant can be as long as 400 feet.⁵ Mr. Mitchell claims consistency with that study because it finds that drops are "typically less than 150 ft."⁶ But there is a lot of ground between 150 feet and 80 feet; and Mr. Mitchell does not provide any data to support the assumption that a distance of 80 feet reasonably corresponds to the industry-recognized lengths for cable plant drops. He claims that 80 feet is reasonable because that is only the distance from a GCI facility to a lot line, and that actual drop lengths will be longer because they include the distances from lot lines to buildings served.⁷ Mr. Mitchell provides no data, however, on the additional distances from lot lines to buildings in his sample. Further, while he acknowledges that cable drops can be as long as 400 feet, his analysis fails to recognize that the 80-foot cutoff could exclude parcels that fit well within that parameter.

³ Mitchell Decl. ¶ 3.

⁴ *Id.*

⁵ *Id.* at ¶ 5.

⁶ *Id.*

⁷ *Id.* at ¶ 4.

4. Indeed, one cannot tell from Mr. Mitchell's analysis what the actual drop lengths are for the properties he examines. The only actual figure he provides is 80 feet as the cutoff for parcels that are considered "near" GCI's facilities. Mr. Mitchell offers no economic or technical justification for choosing that 80-foot figure, however. Such justifications are necessary if his analysis is to be credible. Moreover, there is no way to know from his declaration or data what would happen to his results if he assumed larger distances than 80 feet. Without access to the studies and maps to which Mr. Mitchell refers, it is impossible to understand the sensitivity of the calculation to changes in the distance. Such sensitivity analysis is very important. If longer drop lengths that are still consistent with those typical in the industry would make significant differences in GCI's ability to serve customers, then Mr. Mitchell's results say nothing about GCI's true capabilities.

5. Additionally, there is no economic or scientific basis for GCI's classification of parcels as either residential or commercial based on a cutoff value determined by the average building value per switched business line. Mr. Mitchell does not provide an average, mean or any other benchmark to determine whether the **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** value⁸ actually reflects a reasonable estimate for a "small business" or "medium/large business" parcel.

6. Further, Mr. Mitchell does not provide any sensitivity analysis on how the estimated number of locations "near" its facilities would change if parcels he classifies as small businesses based on his arbitrary cutoff value were actually large businesses. Because Mr. Mitchell only assumes that a small business location can be served if it is "near" its cable facilities, but not its

⁸ *Id.* at ¶ 10.

fiber facilities, the analysis could potentially exclude a number of locations that could be served using fiber facilities. Without such a sensitivity analysis, there is no way to evaluate the reliability of GCI's estimated number of locations "near" its network.

7. The flaws in Mr. Mitchell's methodology are further magnified when considering that some locations could be served by alternative facilities, such as its fiber or wireless local loops. Mr. Mitchell asserts that "fiber is not an economical service method for residential and commercial buildings with less than eight lines."⁹ However, GCI does not provide any cost data to support this claim. While Mr. Mitchell claims that including residential and small business locations that are "near" to GCI fiber facilities would have a minimal impact on the number of locations potentially served over GCI's facilities,¹⁰ without a reasonable basis to ground GCI's assumption of what is "near," this claim is meaningless.

8. Due to GCI's failure to tie its assumptions to real-world values, the estimated number of locations that GCI claims are "near" its facilities are unreliable and cannot be evaluated in an objective manner. The deficiencies in GCI's attempted analysis demonstrate that GCI's estimates are a highly imperfect and unverifiable proxy for a map of its facilities and actual customer locations identified by type and current method of facilities-based service.

9. GCI itself has submitted arguments about facilities-based competition in Anchorage that are at odds with Mr. Mitchell's analysis. Earlier in the proceeding, GCI submitted far different data by economic consultant William P. Zarakas.¹¹ This analysis demonstrated, for

⁹ *Id.* at ¶ 11.

¹⁰ *Id.* at ¶ 11 n.12.

¹¹ Declaration of William P. Zarakas, *Opposition of General Communication, Inc. to the Petition for Forbearance from Sections 251(c)(3) and 252(d)(1) of the Communications Act Filed by ACS of Anchorage*, WC Docket No. 05-281, attached thereto as Exhibit C.

example, that it is economically feasible for GCI to serve all but **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** of its own customers over its own facilities.¹² In this filing, GCI presents data that Mr. Mitchell concedes are static and fail to “represent the number or percentage of business or residential locations that GCI could serve entirely over its own facilities in a commercially reasonable amount of time.”¹³ Mr. Mitchell’s data severely underestimates GCI’s facilities-based presence in the Anchorage market and should be disregarded.

10. GCI’s pessimistic estimates about the implementation of new technology to serve business customers are unavailing. GCI laments that “full commercial deployment” of industry-certified business technology is “a good two years away.”¹⁴ Even if GCI’s claim is true, however, from an economic perspective a two-year window has been widely accepted as a reasonable period that does not warrant continued regulation to ensure competition. Notably, the DOJ/FTC’s *1992 Horizontal Merger Guidelines* designates two years as the period in which it will consider “committed entry alternatives” in a relevant market.¹⁵ Even if GCI waits two years before fully implementing a technology, the Commission should consider this expected deployment when assessing competition.

¹² *Id.* at Exhibit I. GCI attempts to minimize the impact of Mr. Zarakas’s data by arguing that his analysis illustrates where GCI can expand in the long-term. GCI *Ex Parte* 9. However, by taking into account GCI’s ability to “upgrade and/or extend its networks in technically and operationally feasible time frame,” Mr. Zarakas’s data shows GCI’s deployment within a commercially reasonable amount of time. It is implausible that GCI would have submitted an analysis of its ability to expand in the long-term, which is irrelevant to a forbearance determination.

¹³ Mitchell Decl. ¶ 2.

¹⁴ GCI *Ex Parte* 27.

¹⁵ U.S. DOJ & FTC, 1992 HORIZONTAL MERGER GUIDELINES § 3.2, 57 Fed. Reg. 41,552 (1992).

11. It is important to recognize that new technology need not have been fully deployed to impose competitive discipline on ACS. Customers alienated by non-competitive pricing and/or poor service would prove easy targets for competitors whose expanded offerings are imminent. ACS is thus already in the position of having to competitively defend its entire market share from rival offerings. This is not a case in which some speculative or hypothetical entrant “might” come along; in this case the entrant is proven, powerful, and well on the way to overcoming the last few hurdles GCI claims still to exist. Indeed, continued access on a favorably (to GCI) regulated basis only allows GCI to defer even longer the new technological deployment it claims to need.

Respectfully submitted,

/s/ Howard A. Shelanski

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Exhibit F

■ MANAGEMENT DISCUSSION SECTION

Operator: Welcome, and thank you for standing by. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question and answer session. [operator instructions]. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would like to introduce your host for today's conference, GCI's Chief Financial Officer, Mr. John Lowber. Sir, you may begin.

John M. Lowber, Chief Financial Officer, Senior Vice President, Secretary, Treasurer and Member of Finance Committee

Okay. Thank you, and thank you all very much for taking the time to join us today. I am John Lowber, the company's Chief Financial Officer. We have got the usual supporting cast here today, Ron Duncan who is our President and CEO and we have got Bonnie Paskvan, our Corporate Counsel and Greg Chapados who is our Senior VP of Federal Regulatory Affairs. Also, have my usual supporting cast of Fred Walker, our Chief Accounting Officer, Bruce Broquet; and, Peter Collins [ph]. We will all be available to participate in the Q&A session which will follow my initial comments.

A copy of our detailed press release can be found on our website. The conference call is being recorded and will be available for playback for 72 hours beginning at 4 P.M. Eastern Time today. The playback number is 1-866-415-2337 with an access code of 7461. In addition to the conference call, you may access the conference through the Internet. To access the call via net conferencing, log-on to our website at www.gci.com and follow the instructions. Webcast will be available for replay for the next two weeks.

I will now read the customary cautionary statement about forward-looking comments and then we will get started. Some of the statements made by GCI in this presentation are forward-looking in nature. Actual results may differ from those projected in forward-looking statements due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission.

We are pleased for the most part with our second quarter results. We set another new record for revenues with second quarter revenues totaling a 118.2 million representing an increase of 6.8% over the prior year quarter. EBITDA excluding share-based compensation expense totaled 39.5 million which compares to the 36.4 million we recorded last year. Excluding the \$1 million benefit of the MCI credit we recorded in the year ago quarter, adjusted EBITDA increased to 11.6 percent. The second quarter results were consistent with our guidance and that we expected them to surpass those at the first quarter which they did quite handily.

Net income for the quarter was up slightly over the prior year quarter in spite of fairly large increases in non-cash expenses, including depreciation and share-based compensation. Selling and general administrative expenses excluding share-based compensation expense dropped to 33.1% of revenues, a sequential improvement of a 145 basis points.

On a sequential basis, revenues were up almost 4.8% and adjusted EBITDA was up almost 6.5 percent. On a year-to-date basis, net income and earnings per share are down slightly from last year due to the new accounting treatment for stock options and an increase in depreciation expense resulting from our ongoing capital expenditures programs. The quarter was pretty straightforward in that it did not include much in the way of one-off or unusual activity other than continued application of the new accounting rules related to share-based compensation expense.

Now, we will talk about our segment performance starting with consumer. Consumer segment experienced a strong quarter led by growth in wireless, video and data revenues. Consumer revenues were up 9.6% over the prior year and almost 3.7% on a sequential basis. Wireless video and data revenue increases overcame a slight decrease in voice revenues on a year-over-year basis. The gross margin percentage was up slightly from the year ago quarter and decreased a 140 basis points sequentially. A few of the more significant metrics for the consumer segment for the quarter included an increase of 1,000 cable modems, 1,200 local service lines converted to our own facilities, an additional 2,600 HD/DVR converter boxes deployed. These and other related metrics are detailed in the attachment to the press release.

Consumer EBITDA excluding share-based compensation expense totaled 8.39 million for the quarter as compared to 7.23 million a year ago and 8.34 million in the prior quarter. The increase compared to a year ago was in spite of an increase in bad debt expense resulting from depletion of the remaining MCI credit during the prior quarter and was driven by an increase in revenues and a decrease in SG&A cost as a percentage of consumer revenues.

Commercial. Second quarter revenues were down at 1.5% versus the same quarter of 2005 and were down slightly on a sequential basis. Wireless and video revenue growth did not quite compensate for the anticipated decline in commercial voice revenues as compared to a year ago. The decline in revenues on a sequential basis was due primarily to a decrease in data revenues during the current quarter. As expected, we are beginning to see some of the traffic move off of our fiber system that runs along the oil pipeline to the North Slope. This transition is expected to put pressure on our commercial revenues over the next year or so.

The commercial gross profit margin declined a 238 basis points compared to the prior year quarter and 472 basis points sequentially. The decline was partially due to increases in inter-state access charges, as well as the decline in our North Slope fiber revenues. Selling, general and administrative costs excluding share-based compensation expense as a percentage of revenues increased to 124 basis points compared to the second quarter of last year, but declined 77 basis points sequentially. The combination of the decrease in revenues and margin, the increase in SG&A expense and an increase in bad debts primarily due to the end of the MCI credit led to a 22% decline in commercial EBITDA as compared to the prior year quarter. But for the improvement in SG&A cost, the same factors contributed to a sequential decrease in EBITDA.

Notable commercial metrics include an increase during the quarter of 200 cable modem subscribers, 2,600 commercial video subscribers and an additional 100 local service lines move to our own facilities. We added a combined 2,800 commercial and consumer wireless subscribers during the quarter. And, at quarter's end, we had a total of 22,900 wireless subs.

Network access services. The network access business enjoyed a very strong quarter. Revenues were up more than 12.1% over the prior year and were up 9.4% sequentially. The gross margin percentage was down slightly versus the prior year quarter due to anticipated scheduled rate reductions that was up almost 200 basis points sequentially due to operating leverage. We carried 331.5 million network access minutes during the second quarter representing an increase of more than 22% over the prior year quarter. Network access minutes were up more than 15% sequentially.

EBITDA increased by approximately 2.8 million or 13.9% over the prior year quarter, an increase by \$3.3 million or 16.7% on a sequential basis. Our average rate per minute for all of our long distance traffic totaled 8.88 cents per minute compared to 9.4 cents per minute a year ago and 9 cents per minute in the prior quarter. The decrease from the prior year is largely due to a rate decrease effective the 1st of this year while the sequential decrease is due primarily to the seasonal change and the traffic mix.

Managed broadband. Managed broadband revenues were down 5.7% compared to the year ago quarter, but were up 6.4% on a sequential basis. Revenues for the second quarter totaled 6.6 million as compared to 7 million in the same quarter of the prior year and just over 6.2 million in the prior quarter. Quarterly EBITDA was up \$625,000 as compared to the year ago quarter and was up approximately \$317,000 on a sequential basis. Reductions in SG&A costs and bad debt expense more than compensated for the reduced revenues as compared to the prior year. Rate compression experience during our last renewal cycle is putting downward pressure on revenues which we are working to mitigate through sales of additional services.

Other items of interest. Legal and regulatory, our efforts on the legal and regulatory front continue to be focused primarily on negotiating inter-connection agreements with the incumbent carriers in the service areas in which we obtained authority to provide local service. We are also continuing to work through the process to gain approval from the FCC to close our pending acquisition of a majority interest in Alaska DigiTel.

Stock repurchase program. Our stock repurchase program continued during the second quarter and upto the black-out period. Year-to-date, we have acquired slightly more than 2.173 million shares at an average cost of approximately \$11.81 per share for a total of \$25.68 million. Since our last conference call, we have acquired almost 1.3 million shares at an average cost of \$12.13 for a total of approximately \$15.5 million. Of that amount, 3.8 million was spent after June 30th and is therefore not reflected in the second quarter financial statements. Subsequent to the date, the Board authorized stock option exercise proceeds to be utilized for share repurchases. We have realized approximately 5.5 million in option proceeds to be dedicated to that purpose. We are currently cleared to purchase upto an additional \$15.2 million worth of shares through year-end plus proceeds we may realize from option exercises subject to market conditions, available resources and continued financial performance by the company. In the event we don't purchase the full amount authorized, it is likely that the remaining funds will be carried forward for purchases in subsequent periods.

Guidance and economic prospects. Last quarter, I mentioned that we had expected that our second quarter revenues would total 112 to 114 million and our adjusted EBITDA would exceed the 37.1 million that we recorded in the first quarter this year. Second quarter revenues surpassed the high range of our guidance by 4.2 million and adjusted EBITDA surpassed the first quarter by almost 2.4 million. The first two quarter's results along with our current expectations for the Alaska economy allow us to reaffirm our guidance for the full year with revenues expected to total 450 to 460 million and adjusted EBITDA expected to total 150 to 154 million notwithstanding BP's recent announcement that they are shutting down the Prudhoe Bay oil fields for pipeline repairs.

Liquidity and capital expenditures. We ended the second quarter with more than 45 million in cash on-hand and just over 50 million available to draw under our revolving facility. Our senior facility will require only 1.6 million in principle amortization during the next 12 months. We don't currently expect to draw down our facility during 2006 as we expect to continue to generate free cash flow during the year most of which will likely be used to continue our stock repurchase program. Depending on timing, we may use the facility to fund our pending purchase of an interest in Alaska DigiTel.

We invested approximately 23.9 million in capital expenditures during the second quarter. Investments were made in the following areas: for our business lines primary cable modems and set-top boxes, 3.5 million; for broadband and other, 2.7 million; for IT projects, 4.8 million; for support of our network, 4.4 million; for product management, including local services initiatives, 4.8 million; and, for other administrative support, including inventory, approximately 3.7 million.

Capital expenditures requirements beyond approximately 25 million per year and maintenance capital are largely success-driven. We expect the capital expenditure's run rate for the second half of the year to-pick up a bit and that we spent at an annualized rate of approximately 77.2 million

during the first half of the year. Our capital requirements for all of 2006 remain unchanged from last quarter's guidance of approximately 85 million.

To recap our cash sources and uses for the first six months on a simplified basis, we generated approximately 76.6 million in adjusted EBITDA. Out of that, we spent about 38.6 million in capital expenditures and 18 million in interest expense which left over 20 million available for stock repurchases and other items. The interest rate on approximately 318 million of our 477 million in debt is fixed. Our cash interest expense at current rates on our existing facilities is now running at approximately 34.7 million per year compared to the last two quarter's annualized cash flow of approximately a 153 million. Our cash interest coverage is approximately 4.4 times and our leverage at quarter's end on net debt is 2.82 times cash flow. On gross debt, our leverage is 3.12 times.

In conclusion, we met our revenue and cash flow guidance for the first half of the year and we are well positioned to meet expectations for the remainder of the year. We are pleased with what we have accomplished so far this year, but there remains much to be done.

We will now be happy to answer your questions.

Operator: [operator instructions]. One moment for the first question.

QUESTION AND ANSWER SECTION

Our first question comes from Anthony Klarman of Deutsche Bank. You may ask your question.

<Q – Anthony Klarman>: Thank you. A couple of questions. First, just I guess to clarify, sounded like you reiterated your guidance, but we are still assessing what impact if any BP's decision to shutdown part or all of the Prudhoe Bay Pipeline project. Have you assessed what type of impact that might have if any? You know, maybe would spur more telecommunication minutes or have you been able to point to anything that would lead you to indicate that it might cause some drop-off in any of your business categories?

<A>: I think it's much too early Anthony to tell what the impact of it is going to be. They can't even figure out what they are doing. This morning's headlines are that maybe they don't have to shutdown the whole field, maybe they are only going to shutdown part of the field, could be – I mean, we are assuming it's more than a matter of weeks. But, months, how many months. The principle issue from direct impact on the state's economy would be spending by the state government. And, fortunately, with oil prices having run as high as they are, it looks like the state government has more than ample liquidity to maintain its current budget and spending rate for probably about a year before it really gets into any kind of liquidity crunch as a result of the Prudhoe Bay revenues. I would anticipate that the efforts to repair this would have reduced – would create increased economic activity in the state, not reduce the economic activity. It may have some collateral effects on the politics surrounding the pipeline decision. But, I don't see anything at this point that suggests a near-term adverse impact on our operations or the level of the state economy in the near-term. And, I am skeptical would there really be any material layoffs, there maybe some job rearrangements on the Slope as people move from production activities to repair activities. But, I just don't see any downturn as a result of that in the next 12 months.

<Q – Anthony Klarman>: Okay. On the cable telephony side and the conversion process, what's really the issue there? For a while, it sounded like maybe it was to find the equipment particularly for the MDUs I guess in anchorage and then it sounded like you at least got in part of that alleviated last quarter. But, what's really leading to the sort of the slowdown or the conversion rate being slightly slower than expected?

<A>: I think there are three things happening that are effecting the turn-up of facilities on our own plant. Number one is a delay in the upgrades of the outside plants that we need to complete before launching the telephony on that section of the plant. The second is the delay of new markets which, I will come back to that and the third is actually a reduction in the absolute number of local lines. In the near term, the most significant is the delay and the turn up of the outside plant that comes from a combination of factors including our shift late last year, early this year from external line units to internal line units. And when we did that, we reassessed the plant construction and the plant focus plans and actually delayed some of the engineering releases for this year's plant which means that the plant is coming on a little later than anticipated.

We also shifted our focus as to which markets we were going to do ACS filed a petition for preemption of its obligation that will provide units and anchorage and in part in preparation for any downside risk there, we shifted resources of away from the Fairbanks, and general markets and back to the anchorage markets. But, because of some bandwidth upgrade issues, we wound up taking longer than anticipated to upgrade an equivalent number of nodes and anchorage. So, we are seeing those nodes to come on more slowly. And I think the net effect that it's going to be late in the year before we have as many available nodes as we would like to make the conversions, that's going to impact the overall conversion process for the year, because realistically we can do 500 to 600 conversion a year by not having the plant or 500 to 600 conversions a week, I am sorry. By not having the plant available already to run that 500 to 600 pays we are loosing days, where we really can't recovery that amount of conversion production, and when the plant gets delayed that just has the impact of mitigating the total number that we can do this year. Some of that may

result in some catch up next year, some of it maybe permanently pushed out just because of the long run conversion rate.

Our original anticipation for this year also included the expectation that we would be up in operating in several new markets in the third quarter due to delays mostly in getting interconnection agreements, its going to be very late in the year before we are up in operating in two new markets, which have approximately 25,000 lines that we'll addressing with our own facilities. Now we'll have to gain share in those markets, but obviously that won't show as any line gains on our own facilities this year, and we originally had anticipated that it would. So, I think that sort of covers the issue there. The MDU problem has largely been solved, the new MDU boxes work. We've encountered some additional delay is getting noise out of the network to turn up in nodes that have high concentration of MDUs, but I think that sort of covers the delayed awareness to what happened there.

<Q>: What has been the customer response at this point, has there been any appreciable notice or difference in churn or any of the other customer satisfaction statistics you might be able to say?

<A>: We are not seeing any change from what we had experienced with the outdoor units which is that we have higher reliability lower meantime to repair and slightly lower churn on customers on our own facilities as opposed to customers on the facilities the other guy and slightly better voice quality.

<Q>: Okay. Finally, wireless, could you just update us on, you know, your wireless strategy, obviously you've got a resale arrangement in Dobson, with Dobson, how was that going, do you feel it's kind of adding a lot to the bundle and you know, just remind us again of the strategy with respect to Alaska digital, you know, is that kind of the hedge against ultimately being able to own something up there in Alaska out right with respect to Dobson and Dasa [ph]?

<A>: I think you summarized it pretty well and I would just add that we are happy with the Dobson relationship and we think its proceeding well.

<Q>. But, do you feel in any that I guest has using Dobson's GSM product as part of the bundle, it helps to accelerate growth or contributed to customer retention in a way that you didn't have previously.

<A>: Yeah, I think it's a very important part of the bundle we are now offering a bundle that includes mobile service only through wireless, so you can buy a video high-speed data and wireless only. You don't have to have a fixed local line any more. The one thing I left out when I was talking about the facilities conversions was that we are seeing a shrinkage in the three mid global markets we are in today, Anchorage, Fairbanks and Juneau, a shrinkage about 8000 lines a year across the market and total usage of wired lines, since we've got about half of the market that means about half of that about 4000 lines a year on a wired side are really shrinking on our side. Most of that represents wireless migration and wireless substitutions. So, we are very pleased that our wireless product that allows us to address those customers and adoptions filling that niche very well.

<Q>: Okay. Thank you.

<A>: Sure, Anthony.

Operator: Our next question comes from Will Peters [ph] of Oppenheimer Company. You may ask your question.

<Q>: Great, and thank you. For question would be you know, you mentioned that you know, the we are [indiscernible] as commercial customer, if I get – the guidance is relatively unchanged, so

let's assume there is better strengths in the remainder of business, if I can comment on that that would be great? Thanks.

<A>: Yeah, in obviously, you know, when you have to recover, I think the ultimate run rate it's going to be something like 10 million bucks we are actually losing the customer what we are doing as we are scaling back the revenues that we are receiving from that customer and substituting from other services to a contractor who is going to be the primary carrier although that you have remaining services that are being transferred. But yeah, we have got to overcome an ultimate shrinkage in that area of the 10 million a year. It's going to happen overtime, but we think that the growth and the remainder of the current commercial business will compensate for that. You know, we are not projecting any decreases and overall companywide revenue is going forward. So, we think we have enough initiatives working to compensate for that.

<Q>: Okay. So, you didn't lose that customer, we would have made the [indiscernible] increase in guidance then, am I understanding that right?

<A>: Yeah, that is right. That's one of the reasons that we didn't see a big improvement and cash flow from what you might have expected this year versus last years because we bake that into the projections.

<A>: Yeah, I think worth noting that the loss of this customer was cooked into the guidance for the year at the start of the year as well the timing of the turndown was uncertain and we were speculating a little better as to exactly when that was going to occur or how our speculations were not far off the mark. But I think it speaks to the strength of the underlying business both the commercial and the rest of the business that we can absorb over the course of the next year a \$10 million revenue hit and continue to grow the revenues as well as we are growing and believe that spoken in the past about headwinds and we knew we are going to have one with this customer. And I think your point is correct that shows that there is good lying – good underlying resiliency in the rest of the business.

<Q>: Okay. And final question here on the buyback, is there a particular price when you have stopped buying that, I mean sales in the – a level where you'll just tend to see our company, where is the project modify that to less growth areas, to less than investment opportunity is would be at that point and just the whole thing? Thanks.

<A>: I am sure there is a price at which we start buying back. It will open tomorrow morning at 25. We might pause the buyback program a little bit but we adjust and evaluate the price as we go. We obviously I think the company undervalued at the present time and we would like to be the long run owners, so we are continuing the repurchase I think that's a continuous reevaluation based on both the trading multiple and the float levels.

<Q>: Great. Thank you very much.

Operator: The next question comes from Ari Moses of Kaufman Bros. You may ask your question.

<Q – Ari Moses>: Hi guys, good afternoon. Couple of things. First John, just a followup on the discussion of this loss customer. I think you talked in the press release that the number was still around 9, 9.5 million of loss revenues. But, we think that's a net number, you know, netting out I guess will you expect to recoup in return by leasing some facilities to the new provider, can you tell us what the gross number on that was?

<A>: No.

<Q – Ari Moses>: Okay. Fair enough, it tells me the answer.

<A>: I've given you what you need to know Ari.

<Q – Ari Moses>: Okay. As far as the business, I think you sort of alluded to as you talked and much of these were connected. We talked about kind of a slow down on sale of Norseld fiber, you know, a) was this along that line and b) are there any other customers here that you see kind of in the near term at risk of losing revenues in the similar manner to this one?

<A>: I think, I would give that one another no too.

<Q – Ari Moses>: No, is in, no, you are not going to answer or no is that don't know.

<A>: No, we don't foresee any other similar situations, you know, occurring that I can think off and when we view that Norseld fiber are very important asset and we do see lot of continued demand for additional services on that fiber root. So...

<A>: This was a issue that was not a surprise to us, we've been working this for a long time and quite frankly what happened was that a competitor was willing to invest a substantial amount of capital at a much lower rate of return. Then we felt we could justify and use that to try away a piece of the business from us, from this one particular customer who had a unique requirement that needed some additional capital expenditure. And we didn't see due to the upside or couldn't get comfortable with the hurdle rate on the capital required so we lost our position as prime contractor. Our assets going to be redeployed at a lower revenue stream to us, but still providing service to that customer but it'll be as a subcontractor to the new prime, who either has [inaudible] capital or a different business line.

<Q – Ari Moses>: Got it. Turning to just for a second to the DOPS model, what is the impact on the business if any in the slowdown with that migration I mean I know a large part of it was the access line savings, you know, from the lease lines. So, from that cost savings perspective, I guess that slowed but is there any broader impact on the business, I don't believe there's one on the revenue line, but if you can kind of highlight you know, direct-indirect impacts from that slowdown. And just tied into that, Ron you mentioned the 500-600 conversions per week, my guess is that's kind of an average but when you start hitting at the end of the year, when you expect to kind of be back on track with it, that you run into the winter month issue in terms of construction and how those you know, how that might tie into that slow down as well?

<A – Ronald A. Duncan>: Actually the conversions, once the plant is upgraded or not terribly seasonal, but plant upgrades themselves are seasonal. So, having nodes where you can make the conversions is what today is the pacing factor. You can do the actual conversions of the individual homes pretty much here on affect, last year our conversions peaked in the fourth quarter because we had the maximum amount of plant available. I think we'll probably see a similar sequence again this year because it's going to be – you got to make the upgrades in the field, do the line work during the summer months and then whatever you manage to get converted provides an available pool of or whatever you manage to get upgraded provides an available pool of convertible lines that you can work on until you reduce that pool down to zero which points you have to wait for another construction season to have the appropriate outside plant upgraded. We should have almost all of our outside plant in the Anchorage, Fairbanks, Juneau markets upgraded by the end of next year. So, by the end of next year almost all of those three markets should be addressable on our own facilities now it's easier to address the consumer-customers though there is the commercial customers just to the nature of that plant, but that problem in terms of the addressable market should largely go away by the end of next year. The impact is that when you don't get the cost savings from conversions to your own facility to keep your EBITDA growth going, you've got to find other sources. So far we've managed to do that, you could assume had we not had the slowdown in DOPS conversions, you could assume either that we'd have more rapid EBITDA growth or that our focus wouldn't have been as keen on some of the other areas where we have extracted the growth and you would have substituted one for another. But the net answer is the company's

stayed on plan by finding other opportunities to keep the growth coming in. We're not adjusting the guidance and the DOPS conversions become part of subsequent increases rather than today's increases.

<Q>: Got it. Great, thanks.

Operator: The next question comes from Liam Burke with Ferris Baker Watts, you may ask your question.

<Q – Liam Burke>: Thank you. Ron I know managed broadband is a smaller PC revenue, but it looks like you're having rate decreases, it's a fairly specialized service. You are seeing pricing pressure there and what are your client's alternatives?

<A>: There is pretty intense competitive pressure in that business. Both AT&T and to some extent individual standalone data satellite providers are competitors for that business. Occasionally, LEC becomes a competitor for that business. We have the vast majority of that business. We probably got a 80% plus share of the school access and telehealth market in rural Alaska which is what that business is. And, we have had to keep increasing capacity and reducing prices to sustain that business. We have done a relatively good job of sustaining it. But, it's not a revenue growth sector in the current environment because it does see significant price pressure [indiscernible] and by expanding the options that are available to our customers in terms of both the technology and some of the software application issues. It's not going to provide a huge growth stream going forward like it has in the past. But, I think it's a very healthy cash flow stream that we will manage to sustain at a slow rate of decrease.

<Q – Liam Burke>: Thank you.

Operator: Our next question comes from Jonathan Schildkraut of Jefferies. You may ask your question.

<Q – Jonathan Schildkraut>: Hello. Thank you for taking the questions. A couple of questions. First, if the company can talk a little bit about margin performance? Margins expanded this quarter and it looks like you are on a better run rate than you were over the first half of last year which is encouraging particularly in light of the fact that you haven't been able to convert as many customers onto your own DLPS platform as you had hoped for. What's driving the margin expansion? And, you know, as we look out into the future, you know, how can we think about where these margins might be able to go?

<A>: Good question. I think the widening that you are seeing is – continues to be, you know, driven by the increased traffic that we are seeing on our owned facilities. A little bit of that as you mentioned is the DLPS, is we are moving more and more lines to our own facilities. Obviously, that didn't have a big effect this quarter. But, a lot of it is I think I alluded to some operating leverage on the network access platform. We are carrying increasing – significantly increasing amounts of traffic on that. And, if we have got the facilities in place to carry that, the variable costs start to shrink. The fixed costs are spread over more minutes. So, you know, you see improvements in operating leverage.

In general, we are still faced with continued pressure on the revenue side. So, it's kind of an unexpected surprise when you see a widening in the margins from one quarter to the next. I think we are going to continue to see pressure on the revenue side. To the extent we can continue to drive more traffic on the network, that's going to mitigate some of the pressures on the revenue side. So, it's certainly not an exact science, it kind of as you have noticed probably a little bit it's kind of like a pendulum, it kind of swings back and forth a little bit. But, fortunately, it looked good for this particular quarter, and I am hopeful that we will continue in the seasonally strong third

quarter. We will see what happens as we get further down the road. But, it's a continuing struggle to try to grow those margins.

On the G&A side, you know, seeing the G&A cost shrink as a percentage of revenue is partly due to the benefits of growing revenues. The nominal amount of G&A costs, they are still escalating. Not as bad when you back-out the non-cash stock compensation expense. But, we are still struggling in that area with increasing benefits costs and so on. So, you know, we have got pressures in the G&A side too.

<A>: That said, I think that our expectation is, as we move more and more of our operations onto our own facilities and, you know, today, we are still two-thirds on the other guy's facilities and one-third on our own and over the next two to three years we hope [indiscernible] proportion. As we move onto our own facilities, as we increase the utilization of those facilities and as we continue to see increases in average revenue per customer. I mean, we are continuing to see the average customer spend go up. Cable modem average revenues climbed in the last quarter as we sell more bandwidth. The incremental variable cost of that additional bandwidth is small relative to the average revenue increase. So, those all drive gradually improving margins. I wouldn't want to leave you with the impression that we don't think the long run trend for margins continues to march up. I think we have said in the past that we think in the long run we ought to be approaching something in the quarter of a 40% overall EBITDA margin for the business after we are converted completely to our own facilities and addressing the new markets. So, it's steady progress towards that goal of delivering everything on your own facilities. I think John's comments highlight the – it's two steps forward, one step back because you make key improvements in the underlying cost structure and you get things deployed on your own facilities, but you are walking against or running against the headwind in the form of rate compressions or occasionally something like this quarter's contract loss.

<Q – Jonathan Schildkraut>: Understood. Can we talk a little bit about CapEx? I know that you mentioned in your prepared comments that CapEx relative to the first half would accelerate in the back half of this year. I am just wondering about the impact of the DLPS rollout as it applies to the capital spend. I just have two questions. One, is the shift towards more CapEx in the back half of the year have to do with some of the delays that you mentioned? And, two, is the total aggregate amount of capital that you planned on spending on the infrastructure for the conversion the same, are you finding that you need to spend more money in order to accomplish the same amount?

<A>: I think what we are finding on DLPS is that, and on the conversion to our own local facilities is that the spend level is lower. One of the reasons we move from the outside to the inside powered units was a significant reduction in overall cost of deployment, as well as in the long run an increase in the speed of that deployment in the new markets by not having to wait as long for as extensive a plant's upgrade. I think what you will see this year when we get to the end of the year is that we are probably going to under-spend our \$25 million DLPS local services capital budget perhaps by a [indiscernible]. The portion that isn't spend there will go to other projects. That's part of how we are mitigating the delay and realizing the benefit of the DLPS facilities is that we are spending that money on other projects that are generating return. So, while the general guidance is 25 million or so a year on the local facilities, I think we will probably be significantly below that this year. We will build that portion of the CapEx budget with some projects, including planned expansion and some data upgrades and things like that that generate other incremental revenues allowing us to sustain the targeted growth metrics. And, then, I would anticipate coming back much closer, maybe going over a little bit on our generalized target of 25 million for local facilities next year.

We originally had expected to turn-up three or four or five new markets this year. We are going to as a result of delays in the regulatory process be able to turn-up two new markets by the very end of this year. We are still anticipating turning up about 10 new markets next year. That shouldn't be a problem from the constructions perspective, but it is posing significant challenges from the

perspective of getting all of the inter-connection elements in order so that you can actually carry traffic in those markets. So, that's some of what's happening there.

<Q – Jonathan Schildkraut>: Right. That make sense. Last question on option exercises during the quarter, just as Peter said, there were a number of option exercises during the quarter. Obviously, we don't have the full Q yet. But, I was wondering if you might comment on whether the activity in the quarter was anything unusual or just pretty much steady as she goes?

<A>: Yeah. I think it was unusually heavy due to I think the stock price. I think when the stock price, you know, spikes up, that motivates a lot of folks to monetize their options and we saw that happen in the first half of the year. So, if you look at option exercises this year versus last year, it's up dramatically. I think that the gross proceeds since around February of this year was slightly over \$5 million. I think for the [indiscernible] we are looking at gross proceeds of 5, 6 million versus a year ago. I think they were less than a million during the same time period. So, a significant spike, and I think that will settle out as the folks get used to the higher stock price. Part of it I think too is some options that we coming up for expiration that needed to be exercised before they expired. So, unusually, high activity. Whether it will continue or not, I think not. I think it will probably slowdown and normalize.

<Q – Jonathan Schildkraut>: All right. Thank you very much for taking the questions.

Operator: That was our last question.

<A>: Okay. Let's give it another minute and see if anybody has any last minute questions.

Operator: [operator instructions]. One moment, sir.

Company Representative

Minute is up. I think that will wrap the call then if there is no more questions, and thank you very much for participating. We appreciate your interest.

Operator: Thank you for your participation, your call has ended. You may now disconnect.

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Exhibit G

August 8, 2006

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FOR IMMEDIATE RELEASE

GCI REPORTS SECOND QUARTER 2006 FINANCIAL RESULTS

- Consolidated revenue of \$118.2 million
- Net income of \$5.4 million or \$0.09 per diluted share
- EBITDA of \$39.5 million

ANCHORAGE, AK -- GCI (NASDAQ:GNCMA) today reported net income of \$5.4 million, or earnings per diluted share of \$0.09, for the second quarter of 2006. The company's second quarter net income compares to income of \$5.3 million, or earnings per diluted share of \$0.09 in the same period of 2005.

GCI's second quarter 2006 revenues totaled \$118.2 million, an increase of 6.8 percent over the second quarter of 2005. Revenue increases in GCI's consumer and network access segments were partially offset by decreased revenue in the commercial and managed broadband segments.

Second quarter 2006 earnings before interest, taxes, depreciation, amortization and non-cash share based compensation expense (EBITDA) totaled \$39.5 million. EBITDA increased \$3.1 million or 8.5 percent from the second quarter of 2005. Second quarter 2005 EBITDA totaled \$36.4 million including the MCI credit utilized of \$1.0 million.

Sequentially, revenues for the company increased \$5.4 million over first quarter 2006 revenues of \$112.8 million. As expected, second quarter EBITDA of \$39.5 million increased from EBITDA of \$37.1 million in the first quarter of 2006.

For the second quarter of 2006, GCI exceeded its revenue and EBITDA guidance. The company expected revenues of approximately \$112 million to \$114 million, and EBITDA in excess of \$37.1 million, excluding non-cash stock based compensation expense. GCI reaffirms its guidance for revenues of \$450 million to \$460 million and EBITDA of \$150 million to \$154 million for the year 2006. Third quarter revenues are expected to range between \$116 million to \$118 million and EBITDA is expected to remain approximately the same as the second quarter.

"Our second quarter results were on the high side of our expectations," said Ron Duncan, GCI President. "The first half of 2006 positions us well for another record year for total revenues and EBITDA. We face challenges in accelerating the provisioning of local phone service on our own facilities. Our plant upgrades are behind schedule resulting in fewer customers to convert and it has taken longer than anticipated to turn up service in new markets. However, we are addressing these issues and by the end of this year the company expects to be very well positioned for the expansion of local service on our own facilities."

Highlights

- Consumer revenues increased to \$44.2 million, an increase of 9.6 percent over the prior year and increased 3.7 percent from the first quarter of 2006. The increases were due primarily to increases in video, data and wireless sales.

- Network access revenues increased to \$41.4 million, an increase of 12.1 percent over the prior year and increased 9.4 percent over the first quarter of 2006. The increase in revenues is due primarily to a 22.2 percent increase in long distance minutes carried on GCI's network for other common carriers for the second quarter of 2006 as compared to the second quarter of 2005. Minutes for the second quarter of 2006 increased 15.1 percent from the first quarter of 2006. The effect on revenues of increases in minutes for the second quarter of 2006 were partially offset by rate decreases.
- Commercial revenues decreased 1.5 percent from the prior year and 0.4 percent from the first quarter of 2006. A significant customer on GCI's fiber optic cable from Prudhoe Bay to Valdez began transition of their traffic to our competitor's microwave system in June of 2006. We expect to sign an agreement to lease capacity on our system in connection with the competitor's contract. We expect this transition to result in an approximate \$9.5 million annual decrease in revenues when completed. The decrease for 2006 will be approximately one half of the expected annual decrease depending upon the pace of the transition.
- GCI has provisioned 26,400 consumer and commercial lines on its Digital Local Phone Service (DLPS) facilities at the end of the second quarter of 2006, an increase of 1,300 lines over the first quarter of 2006. Second quarter conversions were approximately 1,200 below the planned number due to delays in upgrading plant for phone service. Continued delays are expected to materially reduce total conversions for the year. GCI now expects to serve more than 35,000 lines on its own facilities by year end.
- GCI local access lines declined by 1,100 for the quarter. Consumer, network access and commercial local access lines totaled 111,400 at the end of the second quarter of 2006 representing an estimated 26 percent share of the total access lines market in Alaska. Long distance subscribers decreased sequentially by 1,100 comparable to the decrease in local access lines. The decrease in wire line customers is due to wireless substitution and a reduction in customers taking second lines.
- GCI had 82,100 consumer and commercial cable modem access customers at the end of the second quarter of 2006, an increase of 1,200 over the 80,900 cable modem customers at the end of the first quarter 2006. GCI customers continue to migrate from dial up access service to cable modem. Average monthly revenue per cable modem totaled \$31.54 for the second quarter of 2006 as compared to \$31.22 for the first quarter of 2006.
- Beginning May 1, 2006 and ending July 31, 2006 GCI repurchased 1,280,600 shares of its Class A Common shares at a cost of approximately \$15.5 million or \$12.13 per share. The company is authorized to purchase an additional \$10.2 million of Class A shares by the end of the third quarter of 2006. GCI will repurchase shares depending on market conditions and the availability of free cash flows.

Consumer

Total consumer revenues increased 9.6 percent to \$44.2 million as compared to \$40.3 million in the second quarter of 2005 and increased 3.7 percent from the first quarter of 2006. The increase in revenue is due primarily to an increase in video, data and wireless sales.

Consumer voice revenues were relatively unchanged from the prior year and from

the first quarter of 2006. Consumer local access lines in service were down 500 from second quarter of 2005 and 900 from the first quarter of 2006. GCI converted 1,200 consumer access lines to its own facilities during the second quarter.

Consumer video revenue increased 5.6 percent over the prior year and increased 1.5 percent over the first quarter of 2006. The increase in revenue is due to increasing average revenue per customer in certain markets and increases in video subscribers purchasing digital service and renting high definition/digital video recorder converters.

Consumer data revenues increased 14.8 percent over the prior year and 4.3 percent over the first quarter of 2006. The increase in consumer data revenues is due to an increase in cable modem customers. GCI added 10,700 consumer cable modem customers over the prior year and 1,000 customers during the second quarter of 2006.

Consumer wireless revenues increased substantially during the second quarter of 2006.

Network Access

Network access revenues increased 12.1 percent to \$41.4 million as compared to \$36.9 million in the second quarter of 2005 and increased 9.4 percent from the first quarter of 2006.

Voice revenues increased 16.3 percent over the prior year and increased 13.7 percent from the first quarter of 2006. Network access minutes increased 22.2 percent to 331.5 million minutes for the second quarter of 2006 as compared to the second quarter of 2005. Minutes for the second quarter of 2006 increased 15.1 percent from the first quarter of 2006. The effect on revenues of increases in minutes for the second quarter of 2006 was partially offset by rate decreases.

Data revenues were up 4.4 percent compared to second quarter 2005 and 1.5 percent over the prior quarter.

Commercial

Commercial revenues decreased 1.5 percent to \$26.0 million as compared to \$26.4 million in the second quarter of 2005 and were relatively unchanged from the first quarter of 2006. A significant customer on GCI's fiber optic cable from Prudhoe Bay to Valdez began transition of their traffic to our competitor's microwave system in June of 2006. We expect to sign an agreement to lease capacity on our system in connection with the competitor's contract. We expect this transition to result in an approximate \$9.5 million annual decrease in revenues when completed. The decrease for 2006 will be approximately one half of the expected annual decrease depending upon the pace of the transition.

Increases in video and wireless revenues were offset by decreases in voice and data revenues when compared to the prior year.

GCI converted 100 commercial local access lines to its own facilities during the first quarter.

Basic commercial video customers, as expected, increased by 1,800 subscribers from the prior year and increased by 2,600 subscribers from the first quarter of 2006. Commercial video customers are primarily hotel video customers.

Managed Broadband

Managed broadband revenues totaled \$6.6 million in the second quarter of 2006, a decrease of 5.7 percent from \$7.0 million in the second quarter of 2005 and an increase of 6.4 percent over \$6.2 million in the first quarter of 2006. The decrease from the prior year

quarter is due to fewer multi-site SchoolAccess customers and a decrease in rates charged for certain services provided to rural health customers. The increase from the prior sequential quarter was due to the sale of new services and circuits to rural health customers.

Other Items

Total selling, general and administrative expenses (SG&A) increased 7.0 percent to \$40.7 million as compared to \$38.0 million in the second quarter of 2005 and increased 2.7 percent from the first quarter of 2006. The increase was due primarily to share-based compensation expense from the adoption of a new accounting rule on January 1, 2006. SG&A expenses are recorded by segment using a combination of direct charges and an allocation based on prior year gross margins by segment.

During the second quarter of 2006 GCI's capital expenditures totaled \$23.9 million as compared to \$14.9 million in the first quarter of 2006.

GCI will hold a conference call to discuss the quarter's results on Wednesday, August 9, 2006 beginning at 1 p.m. (Eastern). To access the briefing on August 9, dial 800-369-2012 (International callers should dial 210-234-0006) and identify your call as "GCI." In addition to the conference call, GCI will make available net conferencing. To access the call via net conference, log on to www.gci.com and follow the instructions. A replay of the call will be available for 72-hours by dialing 866-415-2337, access code 7461 (International callers should dial 203-369-0682.)

GCI is the largest telecommunications company in Alaska. A pioneer in bundled services, GCI provides local, wireless, and long distance telephone, cable television, Internet and data communication services throughout Alaska. More information about the company can be found at www.gci.com.

The foregoing contains forward-looking statements regarding the company's expected results that are based on management's expectations as well as on a number of assumptions concerning future events. Actual results might differ materially from those projected in the forward looking statements due to uncertainties and other factors, many of which are outside GCI's control. Additional information concerning factors that could cause actual results to differ materially from those in the forward looking statements is contained in GCI's cautionary statement sections of Form 10-K and 10-Q filed with the Securities and Exchange Commission.

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	Assets	(Unaudited) June 30, 2006	December 31, 2005
Current assets:			
Cash and cash equivalents		\$ 45,686	44,362
Receivables		80,731	78,279
Less allowance for doubtful receivables		5,550	5,317
Net receivables		75,181	72,962
Deferred income taxes, net		20,801	19,596
Prepaid expenses		6,286	8,347
Inventories		2,881	1,556
Notes receivable from related parties		2,685	922
Property held for sale		2,315	2,312
Other current assets		5,938	2,572
Total current assets		161,773	152,629
Property and equipment in service, net of depreciation		434,847	453,008
Construction in progress		24,306	8,337
Net property and equipment		459,153	461,345
Cable certificates		191,565	191,565
Goodwill		42,181	42,181
Other intangible assets		7,813	6,201
Deferred loan and senior notes costs, net of amortization of \$1,953 and \$1,451 at June 30, 2006 and December 31, 2005, respectively		7,509	8,011
Notes receivable from related parties		84	2,544
Other assets		8,143	9,299
Total other assets		257,295	259,801
Total assets		\$ 878,221	873,775

(Continued)

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Continued)

(Amounts in thousands)	(Unaudited) June 30, 2006	December 31, 2005
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of obligations under long-term debt and capital leases	\$ 1,894	1,769
Accounts payable	26,640	23,217
Deferred revenue	15,139	16,439
Accrued payroll and payroll related obligations	13,176	17,925
Accrued interest	8,703	9,588
Accrued liabilities	6,759	6,814
Subscriber deposits	408	361
Total current liabilities	<u>72,719</u>	<u>76,113</u>
Long-term debt	473,360	474,115
Obligation under capital lease, excluding current maturity	1,192	-
Obligation under capital lease due to related party, excluding current maturity	597	628
Deferred income taxes, net of deferred income tax benefit	77,955	69,753
Other liabilities	12,146	9,546
Total liabilities	<u>637,969</u>	<u>630,155</u>
Stockholders' equity:		
Common stock (no par):		
Class A. Authorized 100,000 shares; issued 51,568 and 51,200 shares at June 30, 2006 and December 31, 2005, respectively	177,108	178,351
Class B. Authorized 10,000 shares; issued 3,380 and 3,843 shares at June 30, 2006 and December 31, 2005, respectively; convertible on a share-per-share basis into Class A common stock	2,855	3,247
Less cost of 290 and 291 Class A and Class B common shares held in treasury at June 30, 2006 and December 31, 2005, respectively	(1,723)	(1,730)
Paid-in capital	17,856	16,425
Notes receivable with related parties issued upon stock option exercise	(1,279)	(1,722)
Retained earnings	45,435	49,049
Total stockholders' equity	<u>240,252</u>	<u>243,620</u>
Commitments and contingencies		
Total liabilities and stockholders' equity	<u>\$ 878,221</u>	<u>873,775</u>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Amounts in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 118,220	110,665	231,042	217,175
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	38,598	36,045	74,782	71,245
Selling, general and administrative expenses	40,667	38,019	80,281	75,199
Bad debt expense (recovery)	1,338	194	1,839	(159)
Depreciation and amortization expense	20,172	18,348	40,333	36,052
Operating income	17,445	18,059	33,807	34,838
Other income (expense):				
Interest expense	(8,696)	(8,403)	(17,250)	(16,735)
Amortization of loan and senior notes fees	(251)	(448)	(502)	(931)
Interest income	482	112	639	291
Other	282	-	169	-
Other expense, net	(8,183)	(8,739)	(16,944)	(17,375)
Net income before income taxes and cumulative effect of a change in accounting principle	9,262	9,320	16,863	17,463
Income tax expense	3,856	4,036	7,535	7,516
Net income before cumulative effect of a change in accounting principle	5,406	5,284	9,328	9,947
Cumulative effect of a change in accounting principle, net of income tax benefit of \$425	-	-	(608)	-
Net income	5,406	5,284	8,720	9,947
Preferred stock dividends	-	55	-	148
Net income available to common shareholders	\$ 5,406	5,229	8,720	9,799
Basic net income per common share:				
Net income before cumulative effect of a change in accounting principle	\$ 0.10	0.10	0.17	0.18
Cumulative effect of a change in accounting principle	-	-	(0.01)	-
Net income	\$ 0.10	0.10	0.16	0.18
Diluted net income per common share:				
Net income before cumulative effect of a change in accounting principle	\$ 0.09	0.09	0.16	0.18
Cumulative effect of a change in accounting principle	-	-	(0.01)	-
Net income	\$ 0.09	0.09	0.15	0.18
Common shares used to calculate basic EPS	55,688	54,637	55,526	54,815
Common shares used to calculate diluted EPS	57,260	55,612	56,941	55,919

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
(Unaudited)

(Amounts in thousands)

	Second Quarter 2006					Second Quarter 2005				
	Consumer	Network Access Services	Commercial	Managed Broadband	Totals	Consumer	Network Access Services	Commercial	Managed Broadband	Totals
Revenues										
Voice	\$ 11,451	27,844	8,097	-	47,392	11,593	23,940	8,796	-	44,329
Video	22,329	-	1,933	-	24,262	21,142	-	1,889	-	23,031
Data	7,258	13,533	15,400	6,607	42,798	6,321	12,967	15,468	7,002	41,758
Wireless	3,185	-	583	-	3,768	1,293	-	254	-	1,547
Total	44,223	41,377	26,013	6,607	118,220	40,349	36,907	26,407	7,002	110,665
Cost of goods sold	17,124	8,794	11,605	1,075	38,598	15,712	7,791	11,151	1,391	36,045
Contribution	27,099	32,583	14,408	5,532	79,622	24,637	29,116	15,256	5,611	74,620
Less SG&A	18,544	9,771	8,857	3,495	40,667	17,629	8,547	8,309	3,534	38,019
Less / add bad debt expense (recovery)	677	-	395	266	1,338	(220)	-	(114)	528	194
Add other income	-	-	-	282	282	-	-	-	-	-
EBITDA	7,878	22,812	5,156	2,053	37,899	7,228	20,569	7,061	1,549	36,407
Add share-based compensation	508	605	348	121	1,582	-	-	-	-	-
EBITDA, as adjusted	\$ 8,386	23,417	5,504	2,174	39,481	7,228	20,569	7,061	1,549	36,407

	Second Quarter 2006					First Quarter 2006				
	Consumer	Network Access Services	Commercial	Managed Broadband	Totals	Consumer	Network Access Services	Commercial	Managed Broadband	Totals
Revenues										
Voice	\$ 11,451	27,844	8,097	-	47,392	11,311	24,485	8,023	-	43,819
Video	22,329	-	1,933	-	24,262	22,003	-	1,726	-	23,729
Data	7,258	13,533	15,400	6,607	42,798	6,961	13,338	15,910	6,208	42,417
Wireless	3,185	-	583	-	3,768	2,388	-	469	-	2,857
Total	44,223	41,377	26,013	6,607	118,220	42,663	37,823	26,128	6,208	112,822
Cost of goods sold	17,124	8,794	11,605	1,075	38,598	15,923	8,776	10,424	1,061	36,184
Contribution	27,099	32,583	14,408	5,532	79,622	26,740	29,047	15,704	5,147	76,638
Less SG&A	18,544	9,771	8,857	3,495	40,667	18,406	9,178	8,909	3,121	39,614
Less bad debt expense	677	-	395	266	1,338	257	-	139	105	501
Add other income (expense)	-	-	-	282	282	-	-	-	(113)	(113)
EBITDA	7,878	22,812	5,156	2,053	37,899	8,077	19,869	6,656	1,808	36,410
Add share-based compensation	508	605	348	121	1,582	262	206	161	49	678
EBITDA, as adjusted	\$ 8,386	23,417	5,504	2,174	39,481	8,339	20,075	6,817	1,857	37,088

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
(Unaudited)

(Amounts in thousands)

	Six Months Ended June 30, 2006					Six Months Ended June 30, 2005				
	<u>Consumer</u>	<u>Network Access Services</u>	<u>Commercial</u>	<u>Managed Broadband</u>	<u>Totals</u>	<u>Consumer</u>	<u>Network Access Services</u>	<u>Commercial</u>	<u>Managed Broadband</u>	<u>Totals</u>
Revenues										
Voice	\$ 22,763	52,328	16,120	-	91,211	23,589	44,909	17,577	-	86,075
Video	44,331	-	3,659	-	47,990	42,136	-	3,533	-	45,669
Data	14,219	26,872	31,310	12,815	85,216	12,566	26,142	30,214	13,817	82,739
Wireless	5,573	-	1,052	-	6,625	2,250	-	442	-	2,692
Total	86,886	79,200	52,141	12,815	231,042	80,541	71,051	51,766	13,817	217,175
Cost of goods sold	33,047	17,570	22,029	2,136	74,782	30,663	15,578	22,536	2,468	71,245
Contribution	53,839	61,630	30,112	10,679	156,260	49,878	55,473	29,230	11,349	145,930
Less SG&A	36,950	18,949	17,766	6,616	80,281	35,161	16,624	16,713	6,701	75,199
Less / add bad debt expense (recovery)	934	-	534	371	1,839	(464)	-	(208)	513	(159)
Add other income	-	-	-	169	169	-	-	-	-	-
EBITDA	15,955	42,681	11,812	3,861	74,309	15,181	38,849	12,725	4,135	70,890
Add share-based compensation	770	811	509	170	2,260	-	-	-	-	-
EBITDA, as adjusted	16,725	43,492	12,321	4,031	76,569	15,181	38,849	12,725	4,135	70,890

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
KEY PERFORMANCE INDICATORS
(Unaudited)

					June 30, 2006 as compared to		June 30, 2006 as compared to	
	June 30, 2006	June 30, 2005	March 31, 2006	June 30, 2005	March 31, 2006	June 30, 2005	March 31, 2006	
Consumer								
Voice								
Long-distance subscribers	92,757	NA	93,760	NA	(1,003)	NA	-1.1%	
Total local access lines in service	67,700	68,200	68,600	(500)	(900)	-0.7%	-1.3%	
DLPS local access lines in service	25,300	12,400	24,100	12,900	1,200	104.0%	5.0%	
Video								
Basic subscribers	121,900	121,200	122,100	700	(200)	0.6%	-0.2%	
Digital programming tier subscribers	55,100	48,700	54,900	6,400	200	13.1%	0.4%	
HD/DVR converter boxes	18,800	7,400	16,200	11,400	2,600	154.1%	16.0%	
Homes passed	217,100	211,000	216,000	6,100	1,100	2.9%	0.5%	
Data								
Cable modem subscribers	75,000	64,300	74,000	10,700	1,000	16.6%	1.4%	
Network Access Services								
Voice:								
Long-distance subscribers	30	NA	31	NA	(1)	NA	-3.2%	
Total local access lines in service	3,300	3,600	3,300	(300)	-	-8.3%	0.0%	
Commercial								
Voice:								
Long-distance subscribers	11,676	NA	11,765	NA	(89)	NA	-0.8%	
Total local access lines in service	40,400	40,100	40,600	300	(200)	0.7%	-0.5%	
DLPS access lines in service	1,100	400	1,000	700	100	175.0%	10.0%	
Video								
Hotels and mini-headend subscribers	16,500	14,800	13,900	1,700	2,600	11.5%	18.7%	
Basic subscribers	1,500	1,400	1,500	100	-	7.1%	0.0%	
Total basic subscribers	18,000	16,200	15,400	1,800	2,600	11.1%	16.9%	
Data								
Cable modem subscribers	7,100	5,900	6,900	1,200	200	20.3%	2.9%	
Broadband								
SchoolAccess® customers	45	43	47	2	(2)	4.7%	-4.3%	
Rural health customers	21	21	21	-	-	0.0%	0.0%	
Combined Consumer & Commercial								
Wireless								
Total lines in service	22,900	12,161	20,100	10,739	2,800	88.3%	13.9%	

General Communication, Inc.

Non-GAAP Financial Reconciliation Schedule

(Unaudited, Amounts in Millions)

	Three Months Ended		
	June 30, 2006	June 30, 2005	March 31, 2006
EBITDA, as adjusted (Note 1) \$	39.5	36.4	37.1
Share-based compensation expense	(1.6)	---	(0.7)
EBITDA (Note 2)	37.9	36.4	36.4
Depreciation and amortization expense	(20.2)	(18.4)	(20.1)
Other	(0.3)	---	0.1
Operating income	17.4	18.0	16.4
Other income (expense):			
Interest expense	(8.7)	(8.4)	(8.6)
Amortization of loan and senior notes fee expense	(0.2)	(0.4)	(0.3)
Interest income	0.5	0.1	0.2
Other	0.3	---	(0.1)
Other expense, net	(8.1)	(8.7)	(8.8)
Net income before income taxes and cumulative effect of a change in accounting principle	9.3	9.3	7.6
Income tax expense	(3.9)	(4.0)	(3.7)
Net income before cumulative effect of a change in accounting principle	5.4	5.3	3.9
Cumulative effect of change in accounting principle, net of income tax benefit of \$0.4	---	---	(0.6)
Net income \$	5.4	5.3	3.3

	Six Months Ended	
	June 30, 2006	June 30, 2005
EBITDA, as adjusted (Note 1) \$	76.6	70.9
Share-based compensation expense	(2.3)	---
EBITDA (Note 2)	74.3	70.9
Depreciation and amortization expense	(40.3)	(36.1)
Other	(0.2)	---
Operating income	33.8	34.8
Other income (expense):		
Interest expense	(17.3)	(16.8)
Amortization of loan and senior notes fee expense	(0.5)	(0.9)
Interest income	0.6	0.3
Other	0.2	---
Other expense, net	(17.0)	(17.4)
Net income before income taxes and cumulative effect of a change in accounting principle	16.8	17.4
Income tax expense	(7.5)	(7.5)
Net income before cumulative effect of a change in accounting principle	9.3	9.9
Cumulative effect of change in accounting principle, net of income tax benefit of \$0.4	(0.6)	---
Net income	\$ 8.7	9.9

Notes:

- (1) EBITDA (as defined in Note 2 below) before deducting share-based compensation expense.
- (2) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is the sum of Net Income, Interest Expense, Amortization of Loan and Senior Notes Fees, Interest Income, Income Tax Expense, and Depreciation and Amortization Expense. EBITDA is not presented as an alternative measure of net income, operating income or cash flow from operations, as determined in accordance with accounting principles generally accepted in the United States of America. GCI's management uses EBITDA to evaluate the operating performance of its business, and as a measure of performance for incentive compensation purposes. GCI believes EBITDA is a measure used as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected EBITDA are used to estimate current or prospective enterprise value. EBITDA does not give effect to cash used for debt service requirements, and thus does not reflect funds available for investment or other discretionary uses. EBITDA as presented herein may not be comparable to similarly titled measures reported by other companies.